SUBJECT: Audit Report 2007-04 – Expanded Works (CM07034) (City Wide)

RECOMMENDATION:

(a) That Report CM07034 respecting Audit Report 2007-04, Expanded Works, be received; and

(b) That the management action plans as detailed in Appendix “A” of Report CM07034 be approved and the General Manager of Public Works direct the appropriate staff to have the plans implemented.

Ann Pekaruk
Director, Audit Services
City Manager’s Office

EXECUTIVE SUMMARY:
The 2007 Internal Audit work plan approved by Council included a review of the nature, frequency of use and adherence to policy for expanded works in the procurement process. The results of the audit are included in a formal audit report containing observations, recommendations and management responses as well as a few Addendum items, all attached as Appendix “A” of Report CM07034.

BACKGROUND:
The current Purchasing Policy allows for exceptions to the tendering process. Expanded works, which refers to work added to existing contracts (without changing the scope) to deliver the original, approved work is one such exception.

In 2006, the expanded works classification was used over 65 times totalling $4.66 million of additional spending. Public Works accounted for 88% of the expenditures in this category so the audit effort concentrated on this department.
BACKGROUND: (Continued)
Specific rules and processes are in place for the use of Purchasing Policy #11 for expanded works.

The audit work was completed in late spring and early summer, 2007. The results of this review are attached as Appendix “A” of Report CM07034.

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

ANALYSIS/RATIONALE:

The audit assessed whether current processes for expanded works are in compliance with the City’s Purchasing policies and procedures and whether the controls currently in place are sufficient to ensure the completeness, accuracy and authorization of the amounts classified as expanded works. A review of relevant policies and procedures, the examination of the existing system, records and supporting documentation and the testing of specific transactions were all used to carry out this audit.

The audit resulted in the identification of areas for improvement with regard to financial and administrative controls. A formal audit report containing observations, recommendations and management action plans as well as a few Addendum items were issued and are attached as Appendix “A” of Report CM07034.

The main recommendations noted in the audit report include:

- Equalization of approval limits for directors for the Request to Use the Negotiation Policy #11 (Form) and the requisition form to avoid time delays and inefficient use of the Form.

- Based on the process followed in Public Works, the retention of a dated, signed copy of the Form to provide proof of departmental approval prior to submission to Purchasing in order to improve accountability and provide evidence of a functioning control.

- A method of dealing with individuals who bypass the policy by not submitting proper paperwork before commencing an expanded work. These are reported as “non compliant” in the Quarterly Negotiation reports submitted to Council.

Management and staff have already taken actions to implement all of the formal recommendations. Specific action plans can be found in the attached audit report.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.
FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
None.

POLICIES AFFECTING PROPOSAL:
Purchasing Policy – Request to Use Negotiation Policy #11

RELEVANT CONSULTATION:
Throughout the audit and to obtain the management actions plans, staff in Public Works and the Purchasing section of the Financial Services Division of Corporate Services were consulted.

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

Community Well-Being is enhanced. □ Yes ☑ No

Environmental Well-Being is enhanced. □ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes □ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

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

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

:dt
Attachment
### CITY OF HAMILTON
### INTERNAL AUDIT REPORT 2007-04
### EXPANDED WORKS

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Signing authority limits for Requests to Use the Negotiation Policy #11 (the Form) and the related Purchasing Requisitions are not in agreement. Most Directors have a limit of $100,000 for the Form but $60,000 for requisitions. This situation is confusing and results in inefficient use of the Form. Time delays are being experienced by department requests in the $60,000 to $100,000 range as requisitions are sent to General Managers (GM’s) after both the GM and Director have already signed and approved the Form. If the limits were the same, the department might use the approved Form as an alternative to proceed with the electronic requisition for additions to a Purchase Order (PO) for an expanded work rather than generate another hard copy form (the requisition) for signature. This process for electronic requisitions would still yield approvals for the requisition by way of the PeopleSoft workflow set up.</td>
<td>That approval limits for Directors for the Request to Use the Negotiation Form and the requisition form be made consistent.</td>
<td>Public Works (PW) – Agreed. The authorization limits for the Policy #11 form and purchase requisitions have been equalized.</td>
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<td></td>
<td>That, once signing levels are equalized, consideration be given to using the approved Form in place of the requisition to add to the existing PO for expanded works. This would avoid delays in approvals and duplication of effort in acquiring the same signatures.</td>
<td></td>
<td>PW – Agreed. This recommendation was implemented in the department effective September 30, 2007.</td>
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<td>2.</td>
<td>During the audit, it was noted that not all requesting departments retain a signed copy of the Form. In its place is a signed purchasing requisition on file for the amount of Expanded Work. There is no specific requirement in the procedures to retain a signed hard copy document. The lack of an authenticated paper trail which provides proof of department approval prior to submission to Purchasing diminishes accountability and evidence of a functioning control. Retention of a signed hard copy of the Form becomes even more important if it is decided that the Form can replace the requisition as noted in recommendation #1.</td>
<td>That the procedures governing the Policy for Negotiations #11 ensure the inclusion of the need to retain a signed copy of the Form in all departments.</td>
<td>PW – Agreed. Public Works will retain a hard copy of the document signed off by the Director and General Manager that is forwarded to Purchasing electronically for review and approval. This will be implemented immediately.</td>
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<td>3.</td>
<td>A review of expanded works requests classified as noncompliant by Purchasing was performed. In all cases, noncompliance was attributable to the timing of the receipt of the paperwork by Purchasing and failure to adequately communicate with the Purchasing section in advance of work being performed. Commitments could be made without the proper authorizations as per the use of Form #11. There could be negative public perception as noncompliant requests may be viewed as a way to bypass approved policy and benefit select groups.</td>
<td>That management consider a method of dealing with individuals who bypass policy by not submitting proper paperwork for Purchasing approval prior to commencing any expanded work.</td>
<td>PW – Agreed. A process has been implemented in the Public Works Department as of May 2007. A letter will be issued from the General Manager to the Director on issues of non-compliance.</td>
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The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the errors/issues and can address them.

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

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

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

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

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

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

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