

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2013-04
HAMILTON WATER – INVENTORY CONTROLS
FOLLOW UP**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
1.	<p><u>Policies and Procedures</u></p> <p>The Customer Service and Community Outreach (CSCO), Plant Operations (Plant) and Water Distribution and Wastewater Collection (WD&WWC) Sections do not have written policies and procedures related to inventory management in place.</p> <p>When written procedures are incomplete, employees use personal understanding and experience to carry out processes 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.</p>	<p>That management develop, approve and implement inventory management procedures. Procedures should be standardized among all sections within Hamilton Water, where possible. They should be reviewed annually by management and should bear evidence of review (sign-off).</p>	<p>Hamilton Water is in the midst of conducting process improvement initiatives with respect to inventory management at all of its facilities.</p> <p>The process improvement will include utilization of the inventory management functions in the upgraded Hansen software resulting from the Hansen 8 upgrade project and also the Enterprise Asset Management database.</p> <p>As part of the ongoing work plan, a permanent full-time Supervisor is being hired within the Water Distribution and Wastewater Collection Section and this individual will be directly</p>	<p><u>CSCO</u> Not Completed. CSCO has not developed formal policies and procedures. Expected Completion: December 2017.</p> <p><u>Plant</u> Initiated. Preliminary work to modify workflows has been completed. The corresponding policies and procedures have not yet been written. Expected Completion: December 2015.</p> <p><u>WD&WWC</u> Not Completed. WD&WWC has not developed formal policies and procedures. Expected Completion: December 2016. Standardization with other Hamilton Water sections will be explored in 2017.</p>

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	<p><u>Policies and Procedures (cont'd)</u></p>		<p>involved in the development of procedures and processes to address findings of this audit. Additionally, procedures that apply to the entire Division or procedures that apply to individual Sections only are being drafted to address the findings of the audit including: inventory ordering and order tracking; receiving inventory; vendor invoice processing; inventory distribution and transfers; inventory counts and adjustments; inventory valuation and costing; and disposal of obsolete and surplus inventory.</p> <p>All of these initiatives referenced throughout this report will be completed by Q4, 2014.</p>	

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2.	<p><u>Procurement Policies</u> The following violations of the City of Hamilton's Procurement Policy By-Law No. 12-155 as they relate to inventory purchases were identified:</p> <ul style="list-style-type: none"> • Plant and WD&WWC - Vendor invoices were paid but exceeded the authorized purchase order (PO) amount; • Plant - POs were issued that exceeded the total sole source purchases authorized for the vendor; • CSCO - Purchases exceeded the low dollar procurement limit for one of five vendors tested; and • CSCO - An invoice for operating supplies inventory exceeded the approved amount. The excess amount was paid using a PO approved for capital purchases. 	<p>That Hamilton Water inventory purchases comply with the City of Hamilton's procurement policies.</p>	<p>Agreed. Hamilton Water (HW) will review sectional processes for proactive tracking of Purchase Order expenses (as inventory is ordered). Implementation Date – Q4, 2014.</p>	<p><u>CSCO</u> Completed. Per review of this Section's purchases, no areas of non-compliance were found.</p> <p><u>Plant</u> Completed. Per review of this Section's purchases, no areas of non-compliance were found.</p> <p><u>WD&WWC</u> Not Completed. Purchase orders are currently not being tracked. Expected Completion: December 2016.</p>

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3.	<p><u>Inventory Order Tracking</u> Orders of inventory are not consistently recorded and approved to ensure all inventory ordered is received and is within authorized amounts. For instance:</p> <ul style="list-style-type: none"> • CSCO - A review of five invoices identified that inventory ordered is not consistently or accurately recorded on the Excel inventory tracking sheet; • Plant - A review of five invoices identified that inventory orders are not consistently entered into Infor, the Plant's inventory management system; • WD&WWC Stoney Creek Yard and 330 Wentworth - There is no evidence of orders being tracked; • CSCO, Plant and WD&WWC - Financial Assistants track the authorized amounts remaining on POs. However, inventory ordered but not yet received or inventory received but not yet invoiced is not included in this tracking; and 	<p>That management develop a method of tracking all inventory orders to ensure they are accurately recorded and matched to inventory received. Documentation resulting from this method should be made available to the Financial Assistants when monitoring that inventory purchases are within the remaining authorized amounts.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p><u>CSCO</u> In Progress. Staff are recording inventory orders in the Excel spreadsheet. However, some input errors were observed. Expected Completion: December 2016.</p> <p><u>Plant</u> Completed. Plant staff are consistently entering inventory orders into Infor.</p> <p><u>WD&WWC</u> Not Completed. There is no evidence of orders being tracked. Expected Completion: December 2016.</p> <p><u>CSCO, Plant and WD&WWC</u> No Longer Applicable. Financial Assistants no longer track remaining amounts on POs due to the automation of the Accounts Payable process. Plant has begun implementing its own tracking process.</p>

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	<p><u>Inventory Order Tracking (cont'd)</u></p> <ul style="list-style-type: none"> CSCO and WD&WWC – All staff who make inventory purchases do not have signed "Notifications of Signing Authority" on file, authorizing spending limits. Inventory orders made above a staff member's signing authority do not require any approval before being placed with the vendor. <p>Without proper tracking of inventory purchases, the risk of inventory ordered in excess of authorized PO limits is increased. In addition, excess inventory may be received, resulting in financial loss from payments for items not required for current operations or increased storage costs. Conversely, inventory that is required for upcoming work may not be received, resulting in process delays.</p>	<p>That a "Notification of Signing Authority" form with appropriate limits based on inventory ordering history be completed for all staff making inventory purchases.</p>	<p>Agreed. HW will review staff signing approval authorities and ensure that all staff that make inventory purchases have an appropriate and signed "Notification of Signing Authority" form on file. Implementation Date: Q4, 2014.</p>	<p>In Progress. Signing authority has been restricted to the appropriate staff members in Hamilton Water. However, many limits set at the new Accounts Payable Workflow system default levels are not at the level desired by the Division to meet its operating responsibilities. Expected Completion: December 2016.</p>

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4.	<p><u>Receiving Inventory</u> Inventory received does not appear to be consistently recorded using the inventory management system, causing inaccurate system records. The following discrepancies were found in reviewing four invoices for each noted section:</p> <ul style="list-style-type: none"> • CSCO - Hydrant adapter parts and small meter parts are not entered into the Hansen Maintenance Management System (Hansen) when received; • Plant - Inventory received is not consistently entered in Infor. Year end inventory counts identified 550 parts found in the stockroom that were not recorded in Infor; • WD&WWC Dundas Yard - Inventory received is not consistently entered in Hansen. Year end inventory counts identified 518 parts and 43.6 metres of other inventory items (i.e. pipes) that were not recorded in Hansen; 	<p>That all inventory is accurately recorded, when received, into the inventory management system from the packing slips.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p><u>CSCO</u> In Progress. Hydrant adapter parts were observed in the Inventory Tracking Spreadsheet but not in Hansen. Expected Completion: December 2016.</p> <p><u>Plant</u> Completed. Based on the testing performed, inventory received in Plant is consistently updated in Infor.</p> <p><u>WD&WWC Dundas Yard</u> Not Completed. Based on the 2013 year end inventory count, Dundas Yard inventory is not consistently recorded in Hansen.</p>

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	<p><u>Receiving Inventory (cont'd)</u></p> <ul style="list-style-type: none"> • WD&WWC Dundas Yard - Inventory is not recorded into Hansen until the stockkeeper receives the vendor's invoice. This may be up to one month after inventory has arrived; • WD&WWC Stoney Creek Yard - Errors were noted in the Hansen inventory system. Year end inventory counts identified 563 parts, 118.94 metres and 97.83 tonnes (i.e. stones) of other inventory items found that were not recorded in Hansen; and • WD&WWC Dundas Yard - The stockkeeper has not been trained to add new parts into Hansen. The corresponding invoices are kept aside until they can be added by Hansen administrators. <p>When inventory is not consistently entered into the tracking systems, inventory records cannot be relied upon during the year.</p>	<p>That the stock keeper at the Dundas Yard be trained to add new parts into the Hansen system.</p>	<p>Agreed. During implementation of the Hansen 8 upgrade and Divisional/Sectional inventory procedures, all appropriate staff will receive any required training. Implementation Date – Q4, 2014.</p>	<p>No change has been made to the recording process to date. Expected Completion: December 2016.</p> <p><u>WD&WWC Stoney Creek Yard</u> Not Completed. Based on the 2013 year end inventory count, Stoney Creek inventory is not consistently recorded in Hansen. Expected Completion: December 2016.</p> <p>Not Completed. The stockkeeper retired in 2014 and the new stockkeeper has not yet received adequate training on Hansen. Expected Completion: December 2015.</p>

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5.	<p><u>Vendor Invoicing</u> Invoiced quantities should be matched to their packing slips and related costs should be checked to a quote or price list to ensure payments are being made for items actually received and at the agreed upon price. The following discrepancies were found in reviewing five invoices for each section:</p> <ul style="list-style-type: none"> • CSCO - One invoice was paid for an inventory item at a cost that exceeded the vendor price list. An invoice exceeded the quantity of items that were received and one invoice was paid with the incorrect packing slip attached; • Plant - Packing slips are not attached to invoices. Costs could not be consistently matched to quotes as this information is not uploaded into Infor; 	<p>That packing slips be matched and attached to the corresponding invoices before payments are approved.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p>The portion of the recommendation relating to attaching packing slips to invoices is no longer applicable. Invoices are no longer retained in the department.</p> <p><u>CSCO</u> Completed. Invoices are consistently matched to packing slips.</p> <p><u>Plant</u> Completed. Invoices are consistently matched to packing slips.</p> <p><u>WD&WWC Stoney Creek Yard</u> Not completed. No changes have been made to the handling and review of packing slips. Expected Completion: December 2016.</p>

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	<p><u>Vendor Invoicing (cont'd)</u></p> <ul style="list-style-type: none"> • WD&WWC Dundas and Stoney Creek Yards - Vendors with City contracts provide price lists detailing the costs of inventory items. Quotes are not obtained for items that are not included on the price list or purchased from vendors that do not have a contract; and • WD&WWC Stoney Creek Yard - There is no evidence of costs being checked to the vendor price list before invoices are approved for payment. Packing slips are not attached to invoices or kept in an accessible manner. <p>There is no validation that payments are being made for goods received when packing slips are not kept and matched to invoices. There is an increased risk of failing to identify double or extra billing. When billed costs are not checked to quotes or vendor price lists, there is a risk that the City is overpaying for inventory items.</p>	<p>That quotes be received for all inventory purchases (excluding those for which a price list exists) and tracked with purchase orders. Before being approved for payment, invoices should be matched to quotes or vendor price lists.</p>		<p><u>CSCO</u> In Progress. Quotes or price lists are being reviewed against invoices. However, supporting documentation could not be obtained. Expected Completion: December 2016.</p> <p><u>Plant</u> Completed. Quotes for inventory orders are uploaded into Infor and consistently matched to invoices.</p> <p><u>WD&WWC Dundas and Stoney Creek Yards</u> In Progress. Quotes are obtained for items not included on the price list or purchased from vendors that do not have a contract. However, supporting documentation could not be obtained. No formal checking process is in place. This will be reviewed as part of the Section's process improvement initiatives. Expected Completion: December 2016.</p>

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6.	<p><u>Inventory Tracking System</u> Adequate inventory management systems are not in place in all sections. For instance:</p> <ul style="list-style-type: none"> Compliance & Regulations (Lab) - An Excel spreadsheet is used to track inventory. Upon receipt of inventory, the Lab Assistant overrides the inventory figures in Excel to input the new amount. All lab staff can access inventory and take items as needed. When inventory is taken by staff, they are responsible for overriding the Excel spreadsheet to input the new inventory amount. The Excel spreadsheet lacks controls as it does not track changes made and is accessible by all staff; and WD&WWC's 330 Wentworth - Inventory is not tracked during the year. A count is performed annually, a listing is prepared at year end and inventory is adjusted to the counted quantities. Inventory is taken and used as needed by staff and replenished by physically observing a need for amounts on hand or when staff inform the Supervisor that quantities are low. Materials used are not specifically assigned to work orders. <p>Without proper inventory tracking, there is a lack of accountability for the movement of inventory.</p>	<p>That the Lab review alternate inventory management systems and implement a system that will better track the flow of inventory.</p> <p>That inventory is tracked throughout the year in Hansen, allocated to specific work orders as used and adjusted as replenished.</p>	<p>Agreed. The Lab is looking at available Inventory Management Software Packages. A meeting to review Hansen functionality is scheduled for the end of August. If Hansen is not a suitable option, the Lab will look for alternative inventory management systems. Implementation Date – Q4, 2014.</p> <p>Agreed. The Wentworth inventory will be added to Hansen Inventory Module. Implementation Date – Q4, 2014.</p>	<p>Not Completed. The Section has reviewed Hansen functionality and decided to adopt it as the inventory management system. However, implementation has not yet begun. Expected Completion: September 2015.</p> <p>Not Completed. Implementation was delayed due to the Dundas and Stoney Creek locations upgrading to Hansen 8. Expected Completion: December 2016.</p>

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7.	<p><u>Inventory Distribution</u> Inventory distributed from stock is not consistently removed from the inventory management system, causing inaccurate system records. The following discrepancies were noted for each section:</p> <ul style="list-style-type: none"> • CSCO - Year end inventory counts identified 55 water meters with a location of stockroom in Hansen that were not found during the count; • Plant - Parts are distributed to staff without the accompanying work orders and the stockkeeper is not consistently informed of parts distributed in his absence. Year end inventory counts identified 1,206 parts recorded in Infor stock that were not found during the physical count. Differences are not analyzed by management with appropriate follow up; 	<p>That management follow up with employees who fail to accurately record inventory (removed from stock) and provide additional training as necessary.</p> <p>That inventory stock be distributed only with the provision of a work order. A form should be developed for completion when parts are distributed when the stockkeeper is absent.</p>	<p>Agreed. Refer to response for Item #1.</p> <p>Agreed. Refer to response for Item #1.</p>	<p>Not Completed. Management is reviewing inventory records and following up with staff. However, supporting documentation could not be obtained. Expected Completion: December 2015.</p> <p>Initiated. A Pick Ticket has been developed which will be completed by staff during inventory distributions. However, parts are not consistently allocated to work orders. Expected Completion: December 2015.</p>

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	<p><u>Inventory Distribution (cont'd)</u></p> <ul style="list-style-type: none"> WD&WWC Dundas and Stoney Creek Yards - Inventory used at the Dundas Yard dating back to February 2011 has not been removed from stock. At the Stoney Creek Yard, inventory adjustments lag approximately one week from the time of stock distributions to the time of its removal from inventory. The stockkeeper (Stoney Creek) and supervisors remove inventory from stock in Hansen after Water Distribution Operators inform them of the items used to complete work. <p>Inventory distributed to work trucks is not removed from the Hansen stock records. There is no reconciliation between inventory taken from stock and inventory used by staff. A risk exists in that it cannot be determined if inventory taken and not used has been returned, kept on trucks or potentially misappropriated. Inventory retained on trucks could result in needless ordering of additional items for upcoming jobs as it is not known that the required items are located on trucks.</p>	<p>That Water Distribution Operators remove the parts used from stock in Hansen at the time of distribution.</p> <p>That inventory removed from stock be assigned to a specific truck in Hansen. Truck inventory used for work orders should be removed from the truck inventory listing. This truck inventory should be counted and reconciled at least annually.</p>	<p>Agreed. Refer to response for Item #1.</p> <p>Agreed. Refer to response for Item #1.</p>	<p>Not Completed. No changes have been made to date. This will be reviewed as part of the Section's process improvement initiatives. Expected Completion: December 2016.</p> <p>Not Completed. Inventory distributed to work trucks is currently not removed from the system. This will be reviewed as part of the Section's process improvement initiatives. Expected Completion: December 2016.</p>

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	<p><u>Inventory Distribution (cont'd)</u> Inventory transferred between yards is not recorded in Hansen.</p> <p>Many parts (1,362), and 683.03 metres and 2,790.18 tonnes of various inventory at the Dundas Yard and 1,975 parts, 167.74 metres and 3 tonnes of inventory at the Stoney Creek Yard were recorded in Hansen but not found during the year end count. Differences were not analyzed or followed up by management.</p> <p>When inventory records are inaccurate and require significant adjustments or when inventory changes are not consistently tracked during the year, large adjustments made due to physical count results are difficult for management to follow up. Potential misappropriation of City assets can go undetected.</p>	<p>That all inventory transferred between yards be recorded as a transfer in Hansen.</p> <p>That all inventory count totals and required adjustments show evidence of review by management (signoff). Unusual or material discrepancies should be followed up.</p>	<p>Agreed. Refer to response for Item #1.</p> <p>Agreed. Refer to response for Item #1.</p>	<p>Not Completed. No progress has been made to date; this will be reviewed by the Supervisor as part of the process improvement project. Expected Completion: December 2016.</p> <p>Not Completed. High level reviews are performed by management but no formal review, follow up or sign off process is in place. Expected Completion: December 2016.</p>

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8.	<p><u>Inventory Counts</u> Inventory count practices vary among the sections in Hamilton Water. The following issues were noted regarding the 2012 year end inventory counts:</p> <ul style="list-style-type: none"> • CSCO and WD&WWC - Inventory is counted using a printout of what should be on hand as per the Hansen system. When system records are matched to what is physically on hand, there is a risk of items not on the printout going undetected, resulting in incomplete counts; • WD&WWC Stoney Creek Yard - The stockkeeper or any Operators with extra time perform counts individually; • WD&WWC Dundas Yard - The stockkeeper found 162 items during the year end counts that were not in the Hansen printout. These items were not added to the final totals or updated in Hansen; and • WD&WWC Dundas Yard and 330 Wentworth – Both yards had inventory on trucks that was not included in the final count totals. However, the CSCO and WD&WWC Stoney Creek Yard had inventory on trucks that was added to the final count totals. 	<p>That standard inventory count practices be written for all sections of Hamilton Water and consistently followed by staff.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p>Not Completed. No standard count practice has been developed; Sections still perform counts under their respective methods. Expected Completion: December 2017.</p>

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	<u>Inventory Counts (cont'd)</u> Without documented and adequate count procedures in place, the final inventory totals may be incomplete, inaccurate or not comparable among the sections of Hamilton Water.			

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9.	<p><u>Physical Security</u> Controls over physical access to inventory are limited, increasing the risk of misappropriation of assets. The following security deficiencies were noted in the section indicated:</p> <ul style="list-style-type: none"> • Lab - Proximity cards (167) are issued to provide access to the area of the building containing Lab inventory. Only 42 of these cards belong to individuals requiring access to this inventory. Inventory is not monitored with security cameras. • Plant - Inventory is stored in the Upper Stores building to which 29 staff members have proximity card access. Twenty of these employees are in non-supervisory positions and should not need access (i.e. Millwrights, Instrument Technicians, Electricians and Maintenance Operators). The stockkeeper or supervisors distribute inventory during regular business hours but doors to the inventory area are left propped open after hours and staff have easy access to stock. Inventory items are also stored in the Lower Stores building that does not have any restricted access. 	<p>That the security over inventory at all locations be improved (i.e. restricted access, locked areas, security cameras).</p>	<p>Agreed. The Hamilton Water Division is currently developing a Divisional Security Program that includes both physical and procedural security. This project will be complete by July 2014, after which upgrades to existing facilities will be made in concert with the physical security guidelines.</p> <p>HW Staff will include a review of inventory/stock room security as part of this project. Recommendations will be addressed either in the Security Procedures/Guidelines themselves or in the Divisional inventory management procedure and any associated Sectional inventory management procedures.</p>	<p><u>Lab</u> In Progress. The Section plans to install separate proximity card access to the storeroom. A key lock solution has been implemented in the interim.</p> <p><u>Plant</u> Not Completed. The number of staff with proximity card access has grown and includes members who do not require access. Management feels that restricting access to those supervisory positions would significantly hinder operations and will examine alternative security measures.</p>

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	<p><u>Physical Security (cont'd)</u></p> <ul style="list-style-type: none"> CSCO - Proximity cards (183) are issued for access to the inventory cage. Only 18 of these cards belong to staff who require access to inventory due to their duties. Inventory is not monitored with security cameras. WD&WWC Dundas and Stoney Creek Yards - Proximity card access is run by a third party and management could not provide a listing of swipe cards with access. Supervisors will prop open doors or give swipe cards to staff to obtain inventory if the stockkeeper is unavailable or if it is outside regular business hours. The brass inventory cage has been left unlocked at the Dundas Yard. Inventory stored in the main building at the Stoney Creek Yard is not secure as all staff have access to this building and doors are frequently left propped open. Storage containers containing inventory in either of the yards are not always locked. Aggregates and scrap metal inventory is not adequately secure. Security cameras are in poor working condition. 			<p><u>CSCO</u> Initiated. The number of staff with proximity card access to the cage has been reduced. However, a number of these staff were identified as not requiring access to inventory. Inventory is not monitored with security cameras. Expected Completion: December 2016.</p> <p><u>WD&WWC</u> Not Completed. Many of the identified issues still persist. The Section will develop and implement security measures after performing an internal review of its processes. Expected Completion: December 2016.</p>

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	<p><u>Physical Security (cont'd)</u></p> <ul style="list-style-type: none"> WD&WWC 330 Wentworth - Inventory in the outdoor yard is not secure. The public has access during regular business hours and the area is shared with Roads staff. Inventory is not monitored with security cameras. 			
10.	<p><u>System Access</u></p> <p>Stockkeeper access rights in Hansen allow the user to record inventory receipts and distributions and adjust inventory records. In addition to the actual stockkeepers, two staff with the CSCO section, three staff at the Dundas Yard and two staff at the Stoney Creek Yard were identified as having stockkeeper rights in Hansen because they occasionally fill in for the actual stockkeepers to cover vacations or longer absences. Stockkeeper access rights are not required to fulfill these employees' regular job requirements.</p> <p>When multiple staff have physical access to inventory and the ability to make adjustments to the inventory in the tracking system, the potential for misappropriation increases.</p>	<p>That stockkeeper user rights in Hansen be assigned only to staff recording inventory. Any temporary access required should be removed once the staff person has returned to his regular duties.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p>In Progress. Stockkeeper user access rights are being restricted to staff with inventory recording duties. However, this has not been completed for all Sections. Expected Completion: March 2015.</p>

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11.	<p><u>Combined Facilities</u> The Lab, CSCO, Plant and WD&WWC each store inventory at separate individual locations. The WD&WWC has inventory at three locations. Each location is staffed and operates separately and has different inventory management processes and systems in place which do not provide for shared efficiencies among Hamilton Water sections.</p>	<p>That management review the feasibility of combining inventory storage facilities.</p>	<p>Agreed. The HW Division is currently exploring the possibility of consolidating all staff and equipment/inventory from the Wentworth, Dundas, and Stoney Creek locations into one centralized facility.</p> <p>This consolidation will not include any of the equipment/inventory from the Woodward facility (Lab and Plant), due to the large differences in types and quantities of items that are in the different inventories. Lab and Plant staff require access to chemicals and consumables on a daily basis so their inventory needs to remain located in their current facilities.</p>	<p>Not Completed. The HW Division is exploring the consolidation of the CSCO and WD&WWC facilities. A suitable location has not yet been found. Expected Completion: December 2019.</p>

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12.	<p><u>Inventory Valuation</u> Inventory valuation methods are not consistent across Hamilton Water. WD&WWC 330 Wentworth uses the last invoice cost, the Lab uses the last invoice cost or replacement cost, the CSCO uses the last invoice cost or the prior year's contract price and the Plant and WD&WWC Dundas and Stoney Creek Yards use average cost.</p>	<p>That management review inventory valuation methods and implement a standard method across all Hamilton Water sections.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p>Not Completed. No standard valuation methods have been developed; Sections still value inventory using their respective methods. Expected Completion: June 2016.</p>

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13.	<p><u>Costing Errors</u> Several costing errors were noted as follows:</p> <ul style="list-style-type: none"> Plant - A review of four sampled invoices identified two parts that had incorrect average costs; Plant - Incorrect costs of zero dollars and \$1 were assigned to inventory items in Infor; WD&WWC Stoney Creek & Dundas - Items in Hansen do not accurately reflect the actual average cost as inventory receipts are not consistently entered; WD&WWC Stoney Creek Yard - Costs entered in Hansen varied from those on the invoice. Significant cost differences were observed between the same parts on the Dundas and Stoney Creek Yards final inventory listings. <p>Situations as noted above yield inaccurate costing results and incorrect financial information.</p>	<p>That costs entered in the inventory management systems be reviewed for accuracy and adjusted, as necessary. The quoted cost or amount on the vendor price list should be recorded in the inventory management system and matched to the actual vendor's invoice, when received.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p><u>Plant</u> Initiated. Plant inventory is being costed on a last invoice basis, and will continue to be for the foreseeable future.</p> <p>Items are no longer assigned costs of zero dollars. However, not all obsolete items were assigned a \$1 cost. Expected Completion: December 2016.</p> <p><u>WD&WWC Stoney Creek and Dundas</u> Not Completed. Inventory receipts are not consistently being entered, which may result in inaccurate average costs.</p> <p>Significant cost differences were observed between the same parts on the Dundas and Stoney Creek Yards final inventory listings. Expected Completion: December 2016.</p>

**HAMILTON WATER – INVENTORY CONTROLS
FOLLOW UP – OCTOBER 2014**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
14.	<p><u>Classification - CSCO</u> Water meters purchased from Neptune are included in the year end inventory totals and are also charged to a capital project account in the general ledger. The Neptune meters valuation appears twice on the balance sheet – once as Financial Assets Other and again as part of the Tangible Capital Assets figure. This results in inaccurate financial statements.</p>	<p>That management review the classification of water meters. Meters purchased under capital projects should not be included in year end inventory or asset figures.</p>	<p>Agreed. CS&CO Section staff will review this item with the Finance and Administration (F&A) group to determine the proper way to classify the water meters. This will be documented in the Divisional inventory management procedure and/or CS&CO Sectional inventory management procedure as appropriate. (See response to Item #1).</p>	<p>Completed. Water meters are now classified as Tangible Capital Assets and are removed from the inventory balance.</p>

**HAMILTON WATER – INVENTORY CONTROLS
FOLLOW UP – OCTOBER 2014**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
15.	<p><u>Obsolete Inventory</u> The following issues were noted in regard to obsolete inventory:</p> <ul style="list-style-type: none"> • There are no processes in place to identify and dispose of obsolete inventory items at the CSCO, Plant, WD&WWC Dundas Yard and Stoney Creek Yard; • The four yards above do not track all obsolete inventory; and • WD&WWC 330 Wentworth and WD&WWC Dundas Yard and Stoney Creek Yard include obsolete inventory in the year end inventory figures while CSCO does not include these items in its year end inventory. Plant assigns a \$1 cost to obsolete items and includes the value in the year end totals. <p>When obsolete inventory is stored it can occupy valuable storage space required for usable inventory items. Potential profits from the sale or disposal of these items are not being recognized and increased storage costs may be incurred. Including obsolete inventory that provides no value to the City in the year end figures at cost artificially inflates the financial records.</p>	<p>That obsolete inventory be identified and reviewed annually during the year end count process. The obsolete inventory should be sold or discarded and written off.</p>	<p>Agreed. Refer to response for Item #1.</p>	<p><u>CSCO</u> No Longer Applicable. Due to the high turnover rate of inventory, a formal process to identify obsolete inventory is not required.</p> <p><u>Plant</u> Initiated. Identification and treatment of obsolete inventory is based on staff experience – a formal process is not in place. Expected Completion: December 2015.</p> <p><u>WD&WWC</u> Not Completed. No progress has been made to date for this item. Expected Completion: December 2016.</p>

**HAMILTON WATER – INVENTORY CONTROLS
FOLLOW UP – OCTOBER 2014**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
16.	<p><u>Scrap Metal</u></p> <p>A company on contract with the City picks up scrap metal from various yards where it is stored.</p> <p>Paperwork related to the pick up is not consistently collected at the yards and is not required to be forwarded to the Procurement Specialist indicating that a pick up has occurred.</p> <p>Prior to October 2012, the Financial Assistant I handled the quarterly cheques (along with attached receiving advices for the accumulated pick ups) received from the contractor. Beginning October, 2012, bills of lading are sent to Procurement for every pick up. The Procurement Specialist compiles quarterly reports using these bills of lading. The reports are sent to Accounts Receivable for billing the contractor and receipt of payment.</p> <p>If the contractor failed to submit any bills of lading for pick ups, they would not be included in the Quarterly Report and hence they would not be included in the invoice either. The City would not receive payment for the scrap picked up on these missing bills of lading.</p>	<p>That a bill of lading be obtained for every scrap metal pick up by staff in the yard. This documentation should be forwarded to the Procurement Specialist for matching to the statement/bills of Lading received from the contractor to ensure that all scrap pick ups have been accounted for and billed.</p>	<p>HW: Agreed. The PO section will review the scrap metal pick-up process and implement a system by which a bill of lading is issued for every pick-up. The bill of lading will be forwarded to the Procurement Specialist responsible for the scrap metal contract.</p> <p>The WD&WWC and CS&CO Sections share scrap metal bins with the other staff that work out of the Wentworth facility. PW Facilities staff will need to collect and forward bills of lading for scrap metal pick-ups from this location.</p> <p>Procurement: Agreed. Procedures will be updated to include the requirement that City staff report all scrap metal pick-ups to the Procurement Specialist.</p>	<p>Completed. The contractor is required to send a Receiving Advice to both the yard staff and Procurement Section upon every pickup. This is reconciled against quarterly statements before billing.</p>

**HAMILTON WATER – INVENTORY CONTROLS
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
	<p><u>Scrap Metal (cont'd)</u></p>		<p>This information would include</p> <ul style="list-style-type: none"> i. the date of the pick-up ii. location of the pick-up iii. general description of what was picked up. <p>This information will be required for all City locations, i.e. those that have re-occurring pick-ups and those that are one-time or have infrequent pick-ups.</p> <p>This procedure change will be communicated through the corporate contract listing on the Procurement Resource Centre (on eNet).</p>	

**HAMILTON WATER – INVENTORY CONTROLS
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (OCTOBER 2014)
	<u>Scrap Metal (cont'd)</u>		<p>A notice will be posted on the eNet landing page, an email will be sent to all Departments to be cascaded to all their staff and an article will be included in the next Procurement newsletter.</p> <p>Procurement will maintain a list of City locations using the services of this Contract to reconcile the paperwork associated with the pick-ups.</p>	

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2013-04
HAMILTON WATER – INVENTORY CONTROLS
FOLLOW UP – OCTOBER 2014**

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, risks and inefficiencies and can address them appropriately.

Packing Slips

1. When inventory is received, the staff receiving inventory should sign and date stamp the packing slip, holding them accountable for checking that inventory is in good condition and the correct amounts have been received. In this regard, the following deficiencies were noted:
 - CSCO packing slips are not being signed;
 - Plant packing slips are not being date stamped. The stockkeeper does not sign all packing slips to indicate all ordered inventory was received. The stockkeeper will only sign the top packing slip as indication all items have been received;
 - WD&WWC Dundas Yard packing slips are not date stamped;
 - WD&WWC Stoney Creek Yard packing slips are not date stamped; and
 - WD&WWC 330 Wentworth packing slips are not consistently signed or date stamped.

It is recommended:

That staff sign and date stamp all packing slips when checking the condition and quantity of inventory received.

Management Response:

Refer to response for Item #1 in main report.

FOLLOW UP COMMENT:

CSCO

Completed. Staff consistently sign and date received inventory.

Plant

In Progress. Staff are not consistently signing and dating received inventory. Expected Completion: December 2016.

WD&WWC

Not Completed. No progress has been made to date. Expected Completion: December 2016.

HAMILTON WATER – INVENTORY CONTROLS FOLLOW UP - OCTOBER 2014

Hydrant Parts

2. The WD&WWC Dundas and Stoney Creek Yards remove parts from old hydrants which are intended to be used for future hydrant repairs. These parts are not recorded in Hansen.

Without consistently tracking hydrant parts in inventory, the system cannot be relied upon to identify when new parts need to be ordered. It is also difficult to identify potential misappropriation.

It is recommended:

That all used hydrant parts be recorded in inventory and removed when they are used.

Management Response:

Refer to response for Item #1 in main report.

FOLLOW UP COMMENT:

Not Completed. Hydrant parts are not being tracked in inventory. Expected Completion: December 2016.

Incomplete Purchase Orders - Plant

3. There were 43 POs in Infor with a status of “PO sent to vendor” indicating the inventory had been ordered but not yet received. These outstanding POs are not reviewed or followed up. A review of a sample of five of these POs identified three were items where the inventory had been actually received.

When purchase orders are not reviewed to ensure all inventory is received, it cannot be determined if any inventory has not been delivered or misappropriated.

It is recommended:

That POs with a status of “PO sent to vendor” in Infor be reviewed regularly and changes made, as needed.

Management Response:

Refer to response for Item #1 in main report.

FOLLOW UP COMMENT:

Initiated. The section is in the process of reviewing outstanding purchase orders. Expected Completion: December 2015.