

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2017-03
CITYHOUSING HAMILTON REVIEW – PURCHASING & PAYMENT SYSTEM**

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
<p><u>Policies & Procedures</u> CityHousing Hamilton's (CHH's) Procurement Policies were developed and last updated in 2011. Current procurement procedures followed by staff for a variety of processes are not documented. When policies are not up-to-date and written procedures are not documented, staff rely on their own experience and judgement in carrying out their responsibilities. This often results in incorrect, incomplete or inconsistent practices and makes it difficult for a successor to commence his/her duties quickly.</p> <p>Many examples were found of staff not following CHH procurement policies. These include:</p> <ul style="list-style-type: none"> • The required three quotations were not obtained for procurements valued up to \$25K; • The required informal/formal quotations or tenders were not obtained when acquiring technical consulting services; • The awarded quotes were either not signed or signed by someone without the proper authority; and, • The fee stipulated in the policy for Short Form Tenders was not collected. 	<ol style="list-style-type: none"> 1. That management update the procurement policies and develop related procedures. The policies and procedures should then be reviewed and updated annually and signed off by management. 2. That management implement measures to evaluate staff compliance with the procurement policies and procedures and address instances of non-compliance. 	<p>Agreed. The procurement policies are currently being updated to meet the 2016 Operational Review recommendations. CHH will ensure that its procurement practice is streamlined, consistent and adhered to. The City of Hamilton's policies are being used as a reference guide in the development of the procurement policies. Anticipated completion of all procurement policies will be Q2 2018.</p> <p>Agreed. A Compliance Policy and relevant Standard Operating Procedures for each department will be completed by Q4 2018. Formal quotes will be validated through sign off and completion of a Formal Quotations Form The changes in process related to formal quotes and administrative fees will be completed in Q4 2017.</p>

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<p><u>Awarding of Work</u> In order to ensure proper management oversight and to be consistent with CHH's Procurement Policy, work should be approved by a manager before it is awarded. The review showed that agreements are not dated appropriately on a consistent basis. Therefore, Audit Services was unable to determine whether the work was approved before it was awarded.</p> <p>The General Conditions (GCs) applicable to Short Form Tenders and Public Tenders inform the prospective bidder of their legal obligations should he/she be awarded the contract. The GCs were not always included with the solicitation documents at the time of tendering. In addition, outdated GCs identified as part of an operational review completed in 2016 have not yet been updated.</p>	<p>3. That management develop a procedure directing staff to obtain approval from the appropriate authority prior to extending a contract award. The procedure should address how approvals and contract awards are to be documented, including signatures and dates.</p> <p>4. That management update all General Conditions in the solicitation documents.</p> <p>5. That management develop and use a checklist to ensure that all necessary documents are available to prospective bidders.</p>	<p>Agreed. A Standard Operating Procedure outlining the approval process prior to awarding a contract will be developed by the end of Q2 2018.</p> <p>Agreed. Tender templates are being updated to ensure consistency with the General Conditions in the solicitation documents. Expected completion Q4 2018.</p> <p>Agreed. Asset Renewal staff will develop templates, including a checklist, to ensure all documents are available to prospective bidders. Completion timeline for this item is Q4 2018.</p>

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<p><u>Authorization Limits</u> Authorization Limits are outlined in the procurement policy and Board approved CHH Approval Authorization Limits report to ensure that more expensive procurements are reviewed and approved by senior management. Actual authorization limits are not reflective of current business practices. For example, under the procurement policy some staff have the same authorization limit as their manager. This makes it difficult to validate whether the invoices were properly approved.</p>	<p>6. That management simplify and streamline approval authorization limits, and implement measures to validate compliance.</p>	<p>Agreed. The Authorization Limits for the Procurement Policy have recently been updated to create a process that is simplified and streamlined. Measures to validate compliance will be assessed and implemented by Q2 2018.</p>

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<p><u>Northgate System – User Set Up</u> The Northgate system is used by CHH to track its various contracts. The Northgate system user set-up for the authorization of work orders does not accurately reflect staff members position's or board approved authorization limits, and it is not up to date. Examples include:</p> <ul style="list-style-type: none"> • Job roles have been set up in Northgate for which there are no users; • Job roles are set-up with authorization limits that do not match CHH board approved authorization limits for the roles; • Job roles exist where there is no corresponding CHH board approved authorization limits; • Active profiles exist in Northgate for individuals that have not worked for CHH for up to two years. <p>Inadequate control over system authorization limits increases the risk that work orders are inappropriately approved and paid.</p>	<p>7. That management review and update all job roles and authorization limits in the Northgate system.</p> <p>8. That management develop and implement a policy and procedure to address changes to job roles and authorization limits in the Northgate system.</p>	<p>Agreed. The Authorization Limits for the Procurement Policy will be updated to include job roles that have authorization to request and complete work orders to ensure the policy is followed. The timeline for completion is Q4 2017.</p> <p>Agreed. CHH will create a Governance Policy by Q4 2017 to ensure a streamlined process for change requests to job roles and authorization limits within Northgate.</p>

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<p><u>Northgate - Contract Records Management</u> Contract information is first summarized on a log sheet prior to being entered into the Northgate system. Of the 18 contracts sampled:</p> <ul style="list-style-type: none"> • Dates and contract amounts for six were not consistent between the Northgate system and the manual log sheet; • Fourteen records in the system and logs had insufficient documentation and/or incomplete information (e.g. missing WSIB and insurance certificates, etc.); and, • Two of the contracts entered into CHH's Northgate system have the same contract date as the date on the first invoice. Work could have started before the contracts were finalized. <p>Also, the Northgate system does not have a standard method to readily identify extra work (i.e. Change Orders) made to a contract.</p> <p>Inadequate documentation and poor record keeping makes it difficult to manage contracts and to determine whether fraudulent activity is occurring.</p>	<p>9. That management eliminate the use of the log sheet and enters contract information directly into the Northgate system.</p> <p>10. That management develop and implement a checklist outlining the documents and information required and measures to ensure compliance.</p> <p>11. That management implement measures to evaluate staff compliance</p> <p>12. That management revise the Northgate system regarding the reporting of extra work (i.e. Change Orders).</p> <p>13. That management set a standard outlining what information is to be entered into the Northgate system and develop a procedure for staff to follow.</p>	<p>Disagreed. Staff in the Asset Management section of CHH use the log sheet for internal purposes only. There is no alternative.</p> <p>Agreed. A checklist will be developed outlining the documents to be included in contract files to ensure there is no insufficient and/or incomplete information by Q4 2018.</p> <p>Agreed. Measures to validate compliance will be developed and implemented in Q2 2018.</p> <p>Agreed. CHH staff will investigate Northgate functionality for reporting extra work (i.e. change orders) and the required changes to design by Q2 2018.</p> <p>Agreed. A Standard Operating Procedure will be developed to outline what information is to be entered into Northgate as it relates to contract file management. Anticipated timeline for this is Q1 2019.</p>

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<p><u>Change Orders</u> Work that is in addition to or differs from that specified in the contract is often referred to as a change order. To ensure that change orders are reasonable and that the work is warranted, a Change Order Form must be completed and approved prior to the start of the extra work. The samples tested showed that Change Order Forms were not always used when extra work was needed. Also the proper authorization was not obtained in all cases. This means that Change Orders may have been paid for without the appropriate oversight.</p>	<p>14. That Finance staff pay for additional work only if accompanied by an appropriately authorized Change Order Form and supporting documentation.</p> <p>15. That management implement measures to evaluate staff compliance.</p>	<p>Agreed. Finance staff will review the payments of capital invoices to ensure that payments are properly authorized and have supporting documentation. Completion and implementation will be for Q1 2019.</p> <p>Agreed. One month of capital invoices will be audited yearly to validate authorization and supporting documents. Other measures will be assessed in Q2 2018.</p>

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<p><u>Segregation of Duties</u> For some contracts the same person is responsible for the following functions:</p> <ul style="list-style-type: none"> • Selecting vendors invited to submit a quote or bid; • Awarding or recommending to whom the work should be awarded; • Entering the contract into the Northgate system; • Supervising the work performed; and • Approving invoices for payment. <p>The above reflects an inadequate segregation of duties. There is no independent check for errors and/or irregularities. Fraudulent activities could remain undetected for long periods.</p>	<p>16. That management revise and segregate staff duties and implement controls to check for errors and/or irregularities.</p>	<p>Agreed. CHH will continue to complete contract work as per the current process, while ensuring staff duties are aligned with current and future procurement policies. CHH will implement controls to ensure procurement practices are being followed with the development of a Compliance Policy and relevant Standard Operating Procedures. Completion timeline for this item is in Q4 2018.</p>

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<p><u>Payments to Vendors</u> CHH uses the Arcori system to track payments issued to vendors. Vendor information is entered into Arcori using three different forms depending on whether payment is to external suppliers, tenants or staff. These forms must be approved prior to payment being issued from Arcori. Audit Services was unable to determine whether payment was issued before approval was granted as the approved date did not appear on the vendor information form. Therefore, a risk exists that payments were issued to unauthorized external suppliers, tenants or staff.</p>	<p>17. That management develops procedures to approve and enter vendors into Arcori before funds are paid.</p> <p>18. That management implement measures to ensure staff compliance.</p>	<p>Agreed. The Northgate Tenant Refund Form has been amended to include a line to authorize the set-up of a vendor for tenant invoices and will be used for any direct entries. The recommendation will be implemented in Q3 2018.</p> <p>Agreed. The newly updated Northgate Tenant Refund Form will assist in the reduction of the number of set ups for direct entry which can be monitored through a manual process. Completion timeline for the recommendation will be completed in Q3 2018.</p>

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<p><u>Arcori System Limitations</u> Under the current Arcori system it was not possible to generate a report of paid invoices showing the vendor, invoice number, invoice date, invoice amount, the amount paid and the date on which it was paid. Regular analysis of such a report would help determine if payment for the same invoice has been issued more than once.</p>	<p>19. That management implement a process to identify duplicate payments and work with representatives from Arcori systems to develop the necessary reports or exception texts.</p>	<p>Agreed. CHH is working with representatives from Arcori in developing a report to help monitor duplicate payments. The anticipated implementation is Q1 2019.</p>

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<p><u>Cash Handling</u> CHH charges vendors a fee to obtain a paper copy of the bidding documents. The cash generated from these sales is not properly controlled. For example:</p> <ul style="list-style-type: none"> • There is no record of the number of bidding documents printed or sold at the main office or at off-site meetings; • Receipts are not issued for sales or payments; • Access to bidding documents and the cash box is not limited to designated staff; and, • Reconciliations are not performed. <p>The lack of controls on cash and items with monetary value (i.e. bidding documents) could result in fraudulent activity that remains undiscovered for long periods.</p>	<p>20. That management adopt the City of Hamilton's Cash Handling Policy.</p>	<p>Agreed in principle. As an alternative CHH proposes to no longer accept cash, rather a debit machine will be used to accept administrative cost payments. Anticipated implementation will be in Q4 2017.</p>

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<p><u>Cash Handling (Cont'd.)</u> Bid and performance securities are a means to protect the City respectively from vendors who refuse to sign an awarded contract, and those that fail to live up to the contract terms. Bid and performance securities are usually tendered as bonds or letters of credit. However, CHH's Procurement Policy permits the use of cash as an acceptable security. Based on the dollar value of some contracts, the amount of cash collected for security may be sizeable. This increases the risk of kiting, theft or fraud.</p>	<p>21. That management no longer accept cash as bid and performance securities.</p>	<p>Agreed. CHH has removed cash as an acceptable form of payment for bid and performance securities in its recent updated procurement policies. Tender documents will be updated to reflect the change in Q4 2017.</p>

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<p><u>Efficiency, Effectiveness and Economy</u> In 2016, CHH purchased more than \$800K of goods and services from vendors that have been "grandfathered"; procured from vendors dating back to when CHH was under the province (prior to 2006); or procured from vendors engaged through the Ontario Non-Profit Housing Association. Potential cost savings may be overlooked by not periodically tendering competitively or by not using contracts already established by the City of Hamilton.</p> <p>The manner in which CHH selects the procurement process required is based on the value of work per site. This overlooks opportunities for efficiencies, potential cost savings and ensuring adequate protection through the use of appropriate general contract conditions for all work sites.</p> <p>CHH is meeting its policy obligations by advertising public tenders on the CHH website and in the Hamilton Spectator classifieds. However, there are electronic tendering services that are dedicated to advertising public tenders. These services could be a more efficient tool to reach CHH's intended audience, eliminate the multiple efforts taken to notify bidders and achieve savings in advertising fees.</p>	<p>22. That management review significant spending and follow the appropriate competitive process required by the policy.</p> <p>23. That management investigates the feasibility of procuring similar goods/services in a combined effort.</p> <p>24. That management investigate the implementation of an on-line tendering system similar to the City of Hamilton's Biddingo.</p>	<p>Agreed. CHH will move towards a tender process for a maintenance supply contract and subsequently will review spending for Q4 2019.</p> <p>Agreed. CHH will evaluate the tender process for goods/services that require a single contract (e.g. Sewers and Overhead Doors) in Q4 2018.</p> <p>Agreed. On-line tendering via Biddingo was implemented in June 2017.</p>