



**CITY OF HAMILTON
CITY MANAGER'S OFFICE
Office of the City Auditor**

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	November 5, 2020
SUBJECT/REPORT NO:	Audit Report 2020-04 Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory (AUD20008) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Charles Brown CPA, CA, CPA (Illinois) City Auditor Office of the City Auditor
SIGNATURE:	

Discussion of Confidential Appendix “E” to this report in Closed Session, would be pursuant to Section 8.1, Sub-section (a) of the City's Procedural By-law 18-270, as amended, and Section 239(2), Sub-section (a) of the *Ontario Municipal Act, 2001*, as amended, as the subject matter pertains to the security of the property of the municipality or local board.

RECOMMENDATIONS

- (a) That Appendix “A” of Report AUD20008, respecting the Transportation Operations Inventory Audit Report, be received.
- (b) That the Management Responses as detailed in Appendix “B”, Appendix “D” and Private and Confidential Appendix “E” of Report AUD20008 be approved;

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- (c) That the General Manager of Public Works be directed to instruct the appropriate staff to have the Management Responses (attached as Appendix “B”, Appendix “D” and Private and Confidential Appendix “E” to Report AUD20008) implemented; and
- (d) That Appendix “C” of Report AUD20008, respecting the follow up of Audit report 2013-17, Public Works – Traffic Inventory, be received.
- (e) That Private and Confidential Appendix “E” to Report AUD20008, remain confidential.

EXECUTIVE SUMMARY

As a result of a recent concerns management brought forward about suspected misappropriation of copper wire inventory at the Traffic Operations Centre, the City Auditor chose to carry out an audit of processes to identify gaps that expose inventory to the risk of misuse, loss or misappropriation. Twenty-two recommendations were made to strengthen controls and increase process efficiencies related to inventory. The results of this audit are presented in a formal audit report containing our findings, conclusions, recommendations and management responses. This audit report is attached as Appendices “A”, “B”, and “E” (Private and Confidential) to Report AUD20008.

In addition to Audit Report 2020-04, the City Auditor has included the results respecting a second follow up of Audit Report 2013-17 as both projects pertained to Transportation Operations inventory. Audit Report 2013-17 was originally issued in June 2014 and management action plans with implementation timelines were included in the Report. A Follow Up to Audit Report 2013-17 was issued in March 2016 to determine if appropriate and timely actions had been taken. At that time, of the nine recommendations made in the original Report, two recommendations were completed, three were in progress and four remained not completed. In June 2020, the Office of the City Auditor (OCA) completed a second follow up exercise. Of the nine original recommendations, two recommendations are in progress, two are initiated and five remain not completed. As compared to the initial follow up, the status of four recommendations have remained the same, one has improved, while the remaining four regressed. Details of implementation specific to each recommendation are included in Appendix “C” to Report AUD20008.

The City Auditor also completed an investigation attempting to determine how almost 17,000 meters of copper wire worth approximately \$51K could have gone missing. Although it was not possible to determine the reason for the copper wire’s disappearance, the investigation identified four vulnerabilities and made eleven

recommendations to improve the reporting of copper wire usage and the amount of excess copper wire scrapped. This investigation report is attached as Appendix “D” to Report AUD20008.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

The City Auditor chose to conduct the audit leading to Audit Report 2020-04 as a result of investigating concerns brought forward by management about suspected misappropriation of inventory within Transportation Operations. The results of this audit are attached as Appendices “A” and “B” to Report AUD20008.

Some of the issues raised by Traffic Operations also relate to Fraud and Waste. Therefore, the City Auditor also chose to report this issue as Fraud and Waste Hotline report 2020-28312. The results of this report are attached as Appendix “D” to Report AUD20008.

The Audit, Finance and Administration Committee receives and approves audit reports as part of its responsibilities for the oversight of governance.

Audit Report 2013-17, Public Works – Traffic Inventory, was originally issued in June 2014. The report provided nine recommendations to strengthen controls, improve process efficiencies and increase management oversight. A follow up to Audit Report 2013-17 was issued in March 2016 reporting the implementation status of those recommendations. Due to concerns over inventory controls, the City Auditor chose to conduct another follow up exercise on all nine recommendations, even those recommendations previously reported as being completed. The results of this follow up audit are attached as Appendix “C” to Report AUD20008.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None.

RELEVANT CONSULTATION

Appendices “B”, “D” and “E” (private and confidential) to Report AUD20008 include management responses from management in the Public Works Department responsible for overseeing inventory at the Traffic Operations Centre. In addition, management was provided Appendix “C” to Report AUD20008 containing the results of the follow up audit. In all cases, management resides within the City’s Transportation Operations and Maintenance Division of the Public Works Department.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The OCA interviewed staff, reviewed documents and observed activities in order to understand and assess processes in place for safeguarding inventory. Appendix “A” to Report AUD20008 contains a formal Audit Report (2020-04) containing the audit observations. The OCA made 22 recommendations to strengthen controls and increase process efficiencies for inventory at the Traffic Operations Centre. These recommendations can be found in Appendix “B” and “E” (private and confidential) to Report AUD20008.

Management agreed with 19 recommendations and partially agreed with the remaining three recommendations. Management provided management responses for implementation. The implementation of the management responses are anticipated to be completed by 2022.

In addition to Audit Report 2020-04, the City Auditor has included the results respecting a second follow up of Audit Report 2013-17 which also pertained to Transportation Operations inventory.

The report attached as Appendix “C” to Report AUD20008 contains the original report, Audit Report 2013-11, previous follow up findings, along with comments indicating the City Auditor’s findings for the follow up work performed this year. There were nine recommendations in Audit Report 2013-11. As of June 2020, two recommendations were “In Progress”, one was “Initiated”, one was “Alternative Initiated” and five were “Not Completed”. Appendix “C” to Report AUD20008 contains the details of implementation by recommendation.

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The OCA interviewed staff, reviewed documents and observed activities in order to understand and assess the procurement, inventory, usage and scrapping of specified copper wire. Appendix “D” to Report AUD20008 contains the Fraud and Waste Hotline report issued to management (2020-28312) containing the vulnerabilities identified. The OCA made 11 recommendations to better track copper wire usage and the scrapping of waste wire stored at the Traffic Operations Centre. These recommendations can be found in Appendix “D” to Report AUD20008.

Management agreed with all 11 recommendations and provided management responses for implementation. The implementation of the management responses is anticipated to be completed by Q2 2021.

ALTERNATIVES FOR CONSIDERATION

Not applicable.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD20008 – Audit Report 2020-04

Appendix “B” to Report AUD20008 – Recommendations and Management Responses

Appendix “C” to Report AUD20008 – Follow Up to Audit Report 2013-17

Appendix “D” to Report AUD20008 – Fraud & Waste Investigation – Case 2020-28312 Control Weaknesses Related to Specialized Copper Wire

Private and Confidential Appendix “E” to Report AUD20008 – Security Observations, Recommendations and Management Responses.