



Hamilton

**CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR**

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 23, 2021
SUBJECT/REPORT NO:	Road Maintenance Small Tools and Equipment Inventory Audit and Follow up to Audit Report AUD11006 (AUD21010) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Aleksandra Stojanova, CPA, CA, CIA, CPA (Illinois) (905) 546-2424 Ext. 4438 Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107
SUBMITTED BY:	Charles Brown CPA, CA, CPA (Illinois) City Auditor Office of the City Auditor
SIGNATURE:	

Discussion of Confidential Appendix “D” to this report in Closed Session, would be pursuant to Section 9.1, Sub-section (a) of the City's Procedural By-law 21-021, 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” to Report AUD21010, respecting the Road Maintenance Small Tools and Equipment Inventory Audit, be received;
- (b) That the Management Responses as detailed in Appendix “B” and Private and Confidential Appendix “D” to Report AUD21010 be approved;
- (c) That the General Manager of Public Works be directed to implement the Management Responses (attached as Appendix “B” and Private and Confidential

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Appendix “D” to Report AUD21010) and report back to the Audit, Finance and Administration Committee by September 2022; and

- (d) That Appendix “C” to Report AUD21010, respecting the follow up of Audit Report AUD11006 - Tools Audit, be received; and
- (e) That Private and Confidential Appendix “D” to Report AUD21010, remain confidential.

EXECUTIVE SUMMARY

In April 2021, Labour Relations notified the Office of City Auditor (OCA) of an alleged misappropriation of small equipment and tools inventory from a Yard in the Roadway Maintenance Section of the Transportation Operations and Maintenance Division (TOM) by a City employee. After preliminary discussions with management in TOM regarding their concerns, the OCA performed an audit of the small tools and equipment inventory processes in the area of Roadway Maintenance.

As a result of the audit, the City Auditor brought forward twenty-one recommendations to strengthen controls and increase process efficiencies related to inventory. The results of this audit are presented in a formal audit report containing OCA’s findings, conclusions, recommendations and management’s responses. This audit report is attached as Appendices “A”, “B” and “D” (Private and Confidential) to Report AUD21010.

In addition to this audit report, the Office of the City Auditor followed up on eight of fourteen recommendations that were applicable to Roadway Maintenance and brought forward during an audit of small tools inventory in 2010 (Report AUD11006). As of 2016, six of the eight recommendations were completed and two were in progress.

OCA noted that as of August 2021, the status of the six recommendations that were completed have regressed and the issues that led to the recommendations made in the original Report remain open. Details of implementation specific to each recommendation are included in Appendix “C” to Report AUD21010.

The investigation of the alleged misappropriation was coordinated by Labour Relations and carried out by Hamilton Police Service resulting in charges being laid. The OCA supported certain aspects of the investigation as requested by Labour Relations. Details of the police involvement were previously reported to this Committee in Report AUD21005 in June 2021.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

The City Auditor conducted the audit leading to Audit Report AUD21010 as a result of vulnerability concerns brought forward by Management. These concerns were due to an alleged misappropriation in spring of 2021 of small equipment and tools inventory by a City employee within Roadway Maintenance. The results of this audit are attached as Appendices “A” and “B” to Report AUD21010.

A City-wide controls-based audit related to inventory of small tools in Public Works, which included Roadway Maintenance, was previously carried out in 2010. Eight out of fourteen recommendations brought forward in the 2010 Tools Audit (AUD11006) were applicable to Roadway Maintenance. As of 2016 the OCA validated that six out of the eight management action plans were substantially implemented, but during the current follow up the Office of the City Auditor noted that the status of the six recommendations have regressed and the remaining two are not yet completed. The results of the follow up of 2010 Tools Audit Report (AUD11006) is contained in Appendix “C” to Report AUD21010.

The initial incident that triggered an investigation by Public Works Management and led to this audit ultimately was reported to the Hamilton Police Service and was reported to this Committee in Report AUD21005 in June 2021 as required per the “City Auditor Reporting of Serious Matters to Council” policy that was approved by Council in June 2020.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

City of Hamilton- Fraud Policy and Protocol

City of Hamilton - City Auditor Reporting of Serious Matters to Council Policy

RELEVANT CONSULTATION

Labour Relations, Human Resources Division

Appendix “B” and Private and Confidential Appendix “D” to Report AUD21010 include management responses from management in the Public Works Department responsible for overseeing small tools and equipment inventory in the Roadway Maintenance area. In all cases, management resides within the Transportation Operations and Maintenance Division of the Public Works Department.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The OCA interviewed staff, reviewed documents, conducted site visits and observed activities in order to understand and assess processes in place for safeguarding small tools and equipment inventory. Appendix “A” to Report AUD21010 contains a formal Audit Report containing the audit observations. The OCA made twenty-one recommendations to strengthen controls and increase process efficiencies for small tools and equipment inventory in Roadway Maintenance. These recommendations can be found in Appendix “B” and “D” (private and confidential) to Report AUD21010.

Management agreed with twenty recommendations and partially agreed with one recommendation, providing management responses for implementation. The implementation of the management responses is anticipated to be completed by 2022.

In addition, the Office of the City Auditor followed up on the progress of the recommendations made in the 2010 Tools Audit Report (AUD11006) which pertained to tools inventory management in Public Works. The follow up was limited to eight out of fourteen recommendations in the original Report that were applicable to Roadway Maintenance.

The report attached as Appendix “C” to Report AUD21010 contains the original Audit Report (Appendix “A” to Report AUD11006), previous follow up findings, along with comments indicating OCA’s findings for the follow up work performed this year. As of August 2021, the status of the six recommendations that were completed as of 2016 have regressed and and the remaining two are not yet completed. The OCA has included a recommendation in Appendix “B” to Report AUD21010 to address these longstanding, open recommendations.

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 AUD21010 – Road Maintenance Small Tools and Equipment Inventory Audit Report

Appendix “B” to Report AUD21010 – Recommendations and Management Responses

Appendix “C” to Report AUD21010– Follow Up to 2010 Tools Audit (AUD11006)

Private and Confidential Appendix “D” to Report AUD21010 – Security Observations, Recommendations and Management Responses