



Hamilton

Office of the City Auditor

Road Maintenance Small Tools and Equipment Inventory Audit

Recommendations and Management Responses

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Office of the City Auditor

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Introduction

The following 19 recommendations will strengthen controls and increase process efficiencies related to inventory to reduce the risk of loss and misappropriation.

Recommendation 1

That the criteria for classification of small tools and small equipment be clearly defined. The definition should be risk based and consider establishing dollar value thresholds, so that if there are different set of controls for procurement, inventory management and disposal of inventory they be dependent on risk and dollar value of the inventory (Appendix A, para. 12, 13).

Management Response

Agree.

The Roadway Maintenance & Business Initiatives sections will develop a Standard Operating Procedure (SOP) to include all components of small tool and equipment inventory management. The SOP will define the classification of small tools and equipment by establishing a dollar value threshold.

Expected Completion Date: Q2 2022

Recommendation 2

That the small equipment purchasing practices be reviewed and modified to eliminate segregation of duties conflicts or enhance compensating controls which will mitigate the risk of loss and misappropriation. The process should be formally defined and implemented and should ensure that standard and consistent authorization and transfer records are created and retained to enable independent oversight, reconciliations and investigations (Appendix A, para. 16, 17).

Management Response

Agree.

The division is reviewing the organizational structure and will make changes accordingly. The associated changes to the roles and responsibilities will be outlined in the forthcoming SOPs. In order to support the changes in processes/procedures and further strengthening inventory controls in a sustainable manner, additional full-time staff resource will be allocated through the organizational structure review, using existing FTE allotments as available.

Expected Completion Date: Q1 2022

Recommendation 3

That the current small tool purchasing practices be reviewed, strengthened, and formalized to ensure standard quality and price savings of small tool purchases and consistent practices across the yards. Consideration should be given to centralizing the process and establishing segregation of duties; or establishing mitigating controls, such as enhancing and formalizing the requirements for pre-approvals of small tool purchases, which may include dollar value thresholds and standard pre-approval forms (Appendix A, para. 18, 19, 20).

Management Response

Agree.

The Roadway Maintenance & Business Initiatives sections will develop a Standard Operating Procedure (SOP) to include all components of small tool and equipment procurement. The SOP will establish segregation of procurement duties and implement mitigating controls.

Expected Completion Date: Q3 2022

Recommendation 4

That inventory cleanup exercises for both small tools and small equipment be completed at all yards. Where applicable, the clean up exercises should identify, investigate, reconcile, and adjust the inventory records for any discrepancies between Hansen's inventory records, the inventory records maintained at the yards and the actual inventory on hand (Appendix A, para. 22, 23, 26).

Management Response

Agree.

An inventory cleanup exercise (for both small tools and small equipment) will be completed at all yards.

Expected Completion Date: Q1 2022

Recommendation 5

That all small tools, including hand tools, such as brooms, rakes, and shovels, be assigned and recorded in inventory using unique inventory identification numbers for inventory control purposes (Appendix A, para. 25).

Management Response

Partially Agree.

Dollar value threshold will be identified for small tools that require unique inventory identification numbers in the SOP developed in recommendation #1. Small tools under the dollar value threshold will be considered consumable tools and not have a unique inventory identification numbers due to their low-cost value.

Expected Completion Date: Q2 2022

Recommendation 6

That a standard small tool inventory log format with more comprehensive records (such as acquisitions dates, purchase values, serial numbers, or other information that helps identify the tools) be developed and used across all yards. Consideration can also be given to centralizing the records and using an inventory management solution (Appendix A, para. 25).

**Management
Response**

Agree.

Centralization and standardization of small tool inventory log will be included in the SOP developed in Recommendation #1.

Expected Completion Date: Q2 2022

Recommendation 7

That the current numbering system for small equipment in Hansen be reviewed and revised so it can enable reliable reporting and effective inventory management. In addition, any Hansen training and knowledge gaps should be assessed and remediated prior to this review. (Appendix A, para. 24).

**Management
Response**

Agree.

Business Initiatives will coordinate and complete Hansen training for the required individuals. Standardization of small equipment inventory numbering systems will be included in the SOP developed in Recommendation #1.

Expected Completion Date: Q2 2022

Recommendation 8

That the current small tool inventory count practices be reviewed, strengthened, and formalized to ensure consistent practices across the yards and accuracy and reliability of inventory records. Consideration can be given to establishing segregation of duties; or establishing mitigating controls, such independent surprise validations of counts on a sample basis and requirements for timely investigation and adjustment process (Appendix A, para. 25, 26).

**Management
Response**

Agree.

Business Initiatives will prioritize the implementation of this recommendation to ensure an accurate inventory count procedure is published and adopted before the end of the calendar year.

Expected Completion Date: Q4 2021

Recommendation 9

That the current small equipment inventory count practices be reviewed, strengthened, and formalized to improve their efficiency and effectiveness. Consideration can be given to establishing a process that avoids duplication of inventory records, has more frequent surprise counts on a sample basis by employees who are not in charge for safeguarding and inventory records management, and has requirements for timely investigations, approvals, and adjustments for discrepancies (Appendix A, para. 21, 28).

Management Response

Agree.

Business Initiatives will prioritize the implementation of this recommendation to ensure an accurate inventory count procedure is published and adopted before the end of the calendar year.

Expected Completion Date: Q4 2021

Recommendation 10

That the purchase and discarding of hand tools (i.e. rakes, brooms, and shovels) be logged and monitored for each yard, and that small tool inventory records be adjusted for the purchase and discarding of hand tools (Appendix A, para. 26.)

Management Response

Agree.

The development of a purchasing policy will be included in the SOP developed in Recommendation #3. The development of a disposal/discarding policy will be included in the SOP developed in Recommendation #13.

Expected Completion Date: Q3 2022

Recommendation 11

That a process be developed to track the movement of equipment and valuable tools when they are issued to other yards or sent for repair (Appendix A, para. 27).

Management Response

Agree.

Implementation of a process to track the movement of equipment and valuable tools will be included in the SOP developed in Recommendation #1.

Expected Completion Date: Q2 2022

Recommendation 12

That the small equipment disposal practices be reviewed and modified to bring more oversight of these activities and reduce segregation of duties issues and/or enhance compensating controls. The process should be formally defined and implemented and should define minimum timelines between auctions. The process should also ensure that signed transfer records are retained when equipment is handed off for disposal, logs of equipment designated for disposals are maintained, independent validations of equipment on hand are conducted on a surprise basis, and disposal records are independently reconciled to inventory logs (Appendix A, para. 29, 30, 31).

**Management
Response**

Agree.

The Roadway Maintenance & Business Initiatives sections will develop a Standard Operating Procedure (SOP) to include all components of small equipment disposal practices. The SOP will establish and define the minimum timelines between auctions and strengthen required inventory controls.

Expected Completion Date: Q3 2022

Recommendation 13

That a small tool disposal process be established to ensure that processes are consistent across yards, records of disposals are maintained, small tool wear and tear is tracked, and inventory records are adjusted to reflect the disposals (Appendix A, para. 32, 33).

**Management
Response**

Agree.

The Roadway Maintenance & Business Initiatives sections will develop a Standard Operating Procedure (SOP) to include all components of small tool disposal practices. The SOP will strengthen and standardize inventory controls practices across yards.

Expected Completion Date: Q3 2022

Recommendation 14

That the need of having multiple procurement card holders be reassessed, and if practical, the number of card holders be reduced. The reassessment should, where applicable, include re-aligning procurement card system approvals to direct supervisors of card holders, and consider the management actions that were developed as a response to Recommendation 3 above (Appendix A, para. 34, 35).

**Management
Response**

Agree.

The Roadway Maintenance & Business Initiatives sections will reassess the need for multiple procurement card holders and reduce where applicable. Additional training will be provided to purchase approvers.

Expected Completion Date: Q3 2022

Recommendation 15

That management communicate the importance of due diligence when reviewing procurement card transactions, focusing on fully reviewing the receipts and the validity of the transactions and charging the expenses to the correct general ledger accounts (Appendix A, para. 35).

**Management
Response**

Agree.

Additional training will be provided to purchase approvers to review the importance of validating transactions and the coding of expenses.

Expected Completion Date: Q1 2022

Recommendation 16

That consideration be given to establishing preventative maintenance and inspection schedules for more valuable tools and equipment. This should include establishing clear criteria of the tools and equipment that should have formal preventative maintenance and inspection schedules. The criteria should be risk based and should include dollar value thresholds (Appendix A, para. 36).

**Management
Response**

Agree.

The Roadway Maintenance & Business Initiatives sections will develop a Standard Operating Procedure (SOP) to include all components of establishing and implementing a preventative maintenance plan for valuable small tools and equipment.

Expected Completion Date: Q4 2022

Recommendation 17

That records of warranties be maintained and checked when valuable tools and equipment are sent for repair to make sure that the City does not pay for repairs that are under warranty (Appendix A, para. 37).

**Management
Response**

Agree.

Implementation of a process to track warranties of equipment and valuable tools will be included in the SOP developed in Recommendation #16.

Expected Completion Date: Q4 2022

Recommendation 18

That consideration be given to tracking the history of repairs and repair cost for high value inventory items. As in Recommendation 16, clear risk-based criteria, including dollar value thresholds should be established (Appendix A, para. 38).

**Management
Response**

Agree.

Implementation of a process to track historical repair cost of equipment and valuable tools will be included in the SOP developed in recommendation #18. Repair dollar values thresholds will be established and incorporated in the SOP.

Expected Completion Date: Q4 2022

Recommendation 19

That management recommit to the management action plans applicable to Roadway Maintenance outlined in the original tool audit. Management should review the audit observations to understand the issues which led to the audit recommendations and consider implementing alternative action plans (as required) considering the new recommendations brought forward (Appendix A, para. 40).

**Management
Response**

Agree.

All outstanding recommendations will be addressed by the Roadway Maintenance & Business Initiatives sections with the development of a procedures and processes to strengthen all components of small tool and equipment Inventory Management.

Expected Completion Date: Q3 2022

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