

**CITY OF HAMILTON
 INTERNAL AUDIT REPORT (AUD11006)
 FOLLOW UP OF THE 2010 TOOLS AUDIT
 PUBLIC WORKS - TRANSPORTATION OPERATIONS & MAINTENANCE - ROADWAY MAINTENANCE
 (formerly ROADS SECTION of OPERATIONS & WASTE MANAGEMENT (OWM))**

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	PAST FOLLOW UPS	FOLLOW UP (JUNE 2021)
<p><u>Accounting for Expenditures for Small Tools</u></p> <p>Within PeopleSoft, there is a small tools account meant to record expenditures for hand powered (e.g. screwdrivers, hammers, shovels, brooms) and electronically powered (e.g. saws, grinders) tools. However, in reviewing purchases of such tools over several operational areas, numerous instances of incorrect accounting for the expenditures in the general ledger were noted.</p> <p><u>Roads Operation</u> Several consumable items such as paint, nails, foam spray and dust masks were erroneously booked to the tools account.</p>	<p>1. That greater care be taken to ensure that expenditures on tools, supplies, etc. are posted to their proper accounts</p>	<p>Agreed. The OWM Managers will review the audit findings respecting accounting for expenditures with their Superintendents to confirm accounts to be used and expenditures for error free recording of small tool purchases. Implementation date Q4, 2010.</p>	<p><u>2012 Follow Up Completed.</u> The account (#53074) was only used to record the purchase of small tools</p>	<p>In Progress. Tool Purchases are not consistently posted to the Small Tool Account. Small tool purchases are sometimes charged to the Operating Supplies and/or Operating Equipment accounts. Therefore, management does not have a reliable expenditure total for small tools.</p>

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN OWM	PAST FOLLOW UPS	FOLLOW UP (AUGUST 2021)
<p><u>Written Procedures</u> Tools utilized by City staff have to be purchased from a supplier, delivered to the division or section that requires them, stocked in accessible locations and issued to the staff, as needed. The tools should also be safeguarded against premature wear, breakage and loss.</p> <p>During the course of Internal Audit’s review, it was noted that none of the nine divisions/sections sampled had formalized written procedures that would provide guidance for the receipting, stocking, issuance or safeguarding of tools used by their staff. Without written procedures, the employees currently carrying out related processes rely on personal understanding and experience which may result in incorrect, incomplete or inconsistent application. Also, it may be problematic and inefficient for a successor to commence his/her duties within a short period of time.</p>	<p>2. That written procedures be developed covering the purchase, receipting, stocking, issuance and safeguarding of tools.</p>	<p>Agreed. OWM Divisional small tools procedure(s) will be developed. Procedures will be developed by the 2nd quarter of 2011 and implementation of the procedures will be completed by the 4th quarter of 2011.</p>	<p><u>2012 Follow Up Completed.</u> A procedure has been developed for all sections of the Operations and Waste Management Division. This includes: Roads, Forestry & Horticulture, and Parks & Cemeteries.</p>	<p>In Progress. A written procedure was developed for OWM section as a result of the 2010 Tools Audit. However, the procedure was never approved, and have remained in draft form only. Therefore, the procedure has not been fully implemented.</p> <p>The draft procedure “as is” does not provide comprehensive guidelines with regards to segregating duties and establishing controls and has no guidelines on disposal of tools.</p>

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	PAST FOLLOW UPS	FOLLOW UP (AUGUST 2021)
<p><u>Segregation of Duties - Purchase, Receipting & Stocking of Tools</u></p> <p><u>Roads Operations</u> The same individual (either a Supervisor or Lead Hand) that purchases new tools also takes delivery of the tools and stocks them for use by staff.</p>	<p>3. That tool purchase practices be modified to allow for independent verification that the number and type of tools purchased are received and stocked.</p>	<p>Agreed. The recommendations will be addressed as part of the divisional procedures identified in #2 above. The purchases will be captured in an inventory ledger system with the date and type of tool entered into stock. Procedures will ensure that the same person is not in charge of placing the order, receiving and stocking of tools.</p>	<p><u>2012 Follow Up Completed.</u> The tool purchasing practice was modified. The same person does not place the order, approve their purchase and stock the tools.</p>	<p>Not Completed. Although the draft procedure states that the Superintendents are to approve Small Tools Purchases and are to ensure segregation of duties, currently there is no segregation of duties nor are there compensating controls to mitigate this risk. In some yards the individual purchasing an item can take delivery of the item and stock it into inventory. Also, there is no official dollar threshold or formal process defining when purchases should be approved by superintendents, nor when written authorization of such approval is required.</p>

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<p><u>Tools Ledgers</u> A tools ledger should properly itemize and account for all of the tools in inventory. It should include the brand, serial number or other identifiers, if applicable, and monitor the tool’s location or to whom it has been assigned. Ideally, by including the age and cost of each tool, the ledgers could be used to ascertain the value of the tools inventory in a particular section, division, department or the City as a whole.</p> <p><u>Roads Operations, Parks & Cemeteries</u> The ledgers often do not include serial numbers where one would expect them, the tools’ costs or their date of acquisition. The ledgers are not updated regularly.</p>	<p>4. That all divisions or sections utilizing tools either modify existing tool ledgers or develop new ones that provide descriptions of the tools including brands and serial numbers (or other identifiers), locations, acquisition dates and costs.</p> <p>5. That these ledgers be updated periodically (monthly or quarterly) depending on the turnover of tools in inventory.</p>	<p>Agreed. Some tracking systems are in place but not in all areas. The recommendations will be addressed as part of the divisional procedures identified in #2 above. A system by which tools will be identified (e.g. serial numbers) and entered into the tools inventory system will be developed.</p> <p>As part of the small tools procedure(s), the inventory ledger system will be updated with all information recorded on tools being purchased and received. The inventory will be updated on a regular basis.</p>	<p><u>2012 Follow Up</u> Completed. A tools ledger has been developed.</p> <p><u>2012 Follow Up</u> Incomplete. It is not updated regularly</p> <p><u>2014 Follow Up</u> Initiated. Tools ledgers for only one of the three districts are updated regularly.</p> <p><u>2016 Follow Up</u> In progress. Evidence was found that the ledger is updated monthly. However, not all tools costing more than \$50</p>	<p>Not Completed. The tool inventory ledgers that are used by the various yards have different formats, are not accurate and complete, and are not kept up to date. Often the tools listed are missing their unique identifier numbers, their purchase date, the cost of the item, or other information that helps identify the tool.</p> <p>Not Completed. Evidence was found that the tool ledgers are not updated to reflect new purchases and disposal of tools.</p>

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	<p>6. That yearly inventory counts be taken to verify that the information in the ledgers is correct.</p>	<p>The frequency of the inventory counts will be determined once the inventory has been updated and as part of the development of the procedure(s).</p>	<p>are recorded and errors were noted in four of the six sampled tools purchases reviewed.</p> <p><u>2012 Follow Up</u> In Progress. An initial inventory count was conducted in Q3 2011. Even though staff claim that another count was done in March 2012, they could not provide proof that it had been completed.</p> <p><u>2014 Follow Up</u> In Progress. Annual inventory counts cannot be verified in some locations because evidence of such a count is not being retained.</p> <p><u>2016 Follow Up</u> In Progress. Annual inventory counts cannot be verified in some locations because evidence of such a count is not being retained.</p>	<p>In progress. There is evidence of inventory counts, but the counts are not effective in terms of adjusting the inventory logs.</p>

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<p><u>Identifying Ownership of City of Hamilton Tools</u> The marking of tools as belonging to the City of Hamilton and a particular division or section is not consistently applied, if at all. It would be much easier to trace specific tools if they were moved or borrowed from the location or from the individual to whom they were originally assigned.</p> <p><u>Roads Operations, Parks & Cemeteries</u> Only the more valuable tools are identified.</p>	<p>7. That all tools owned by the City of Hamilton be marked in a manner that permits their tracing to identified locations/vehicles.</p>	<p>Agreed. OMW will develop a system to ensure that small tools are branded (such as color coding or engraving) to identify as City of Hamilton property. This will be reflected in the procedures to be developed as identified in #2 above.</p>	<p><u>2012 Follow Up</u> In Progress. Some small tools that were recently acquired were found not marked as City property.</p> <p><u>2014 Follow Up</u> Completed.</p>	<p>In progress. There is no consistent process in place and many small tools are not marked in any way that would identify them as belonging to the City. Some of these tools can be expensive.</p> <p>Small equipment is usually marked with a sticker to identify it as belonging to the City. However, depending on the age of the equipment, the sticker is often faded or greasy and is difficult to read.</p>

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<p><u>Small Tools Issuance</u> In many sections, some of the tools that are deemed more valuable are stocked in a specific location and accessed by staff when a tool is needed or returned.</p> <p><u>Roads Operations, Parks & Cemeteries</u> There is no tracking of the tools issued regardless of whether they are low value items or more expensive tools.</p>	<p>8. That management develop a control to track the issuance and return of the tools whose value exceeds a predetermined limit.</p>	<p>Agreed. OWM will review its practices and develop and implement a consistent tracking system for higher value tools, including the sections identified in the audit. Appropriate tool value will be determined as part of this process. This will be reflected in the procedures to be developed as identified in #2 above.</p>	<p><u>2012 Follow Up</u> In Progress. A tracking system for the issuance of small tools is used in the larger yards but has not been extended to the smaller yards.</p> <p><u>2014 Follow Up</u> In Progress. Some form of control sheets tracking the use of tools is being used in all three districts. However, the return section of the control sheets used by the Wentworth yard is not utilized. Control sheets for West District do not show the name of the person taking the tools and control forms are only used for some tools in East District.</p> <p><u>2016 Follow Up</u> Completed.</p>	<p>Not Completed. Sign in/out sheets are generally not used for small tools. While there are attempts to track the issuance of more expensive powered tools; the tracking is not effective and the value for tools that require tracking has not been pre-defined.</p> <p>Sign-in/out sheets that track the issuance and return of small equipment are in place and used by most yards. However, their appearance (or format) differs from one yard to the next, and they are not used consistently. This makes them ineffective and unreliable in tracking the last location of the small equipment.</p>