



## **AUDIT, FINANCE AND ADMINISTRATION COMMITTEE REPORT 22-011**

**9:30 a.m.  
June 2, 2022  
Council Chambers  
Hamilton City Hall**

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**Present:** Councillors M. Pearson (Chair), B. Clark, L. Ferguson, B. Johnson, R. Powers, and M. Wilson

**Absent:** Councillor A. VanderBeek - Personal

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### **THE AUDIT, FINANCE AND ADMINISTRATION COMMITTEE PRESENTS REPORT 22-011 AND RESPECTFULLY RECOMMENDS:**

#### **1. Disconnecting from Work Policy (HUR22005) (City Wide) (Item 7.1)**

(a) That Appendix "A" to Report HUR22005, Disconnecting from Work Policy, be amended, by deleting the word 'should' and replacing it with the word 'shall' in Item 9, as follows:

9. Employees shall not be penalized for disconnecting during non-work hours where it is not a job expectation; and

(b) That Report HUR22005, respecting Disconnecting from Work Policy, be received as amended.

#### **2. Extension of Employee and Family Assistance Program Contract (HUR22006) (City Wide) (Item 10.1)**

(a) That the single source procurement, pursuant to Procurement Policy #11 – Non-competitive Procurements, for the extension of Contract C1-02-15 for the Provision of the Employee and Family Assistance Program to City Employees from July 1, 2022 to an end date no later than July 1, 2023, be approved; and,

(b) That the City Manager be authorized to negotiate and execute an amendment to the Contract and any ancillary documents required to give effect thereto with Homewood Health Inc. in a form satisfactory to the City Solicitor.

**3. Follow Up Audit: Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory (AUD22005) (City Wide) (Item 10.2)**

- (a) That Report AUD22005, respecting the follow up of the original recommendations presented in Audit Report AUD20008 Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory be received;
- (b) That the General Manager of Public Works be directed to finish the implementation of the Management Responses listed in AUD20008 and that remain incomplete in Appendices “A” and “B” to Audit, Finance and Administration Committee Report 22-011 and report back to the Audit, Finance and Administration Committee by May 2023 on the nature and status of actions taken in response to the audit report; and
- (c) That Confidential Appendix “C” to Report AUD22005, respecting the Follow Up Audit: Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory, be received and remain confidential.

**4. Governance Review Sub-Committee Report 22-002 - May 30, 2022 (Added Item 10.3)**

- (a) **Amendment to By-law 16-288, Being a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council (Item 5.1)**

WHEREAS, Council enacted a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council, being City of Hamilton By-law No.16-288;

WHEREAS, By-law 16-288 requires the complainant to pay to the City Clerk a refundable fee in the amount of \$100.00 upon the filing of a Complaint;

WHEREAS, the refundable fee may penalize complainants from exercising their statutory rights, and may prevent legitimate complaints from being brought forward due to concerns about financial cost;

THEREFORE, BE IT RESOLVED:

That By-law 16-288, being a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council, be amended by deleting subsections 11.(6)(a), (b) and (c) as follows:

11. ~~(6)(a) — A Complainant shall pay to the City Clerk a refundable fee in the amount of \$100.00 upon the filing of a Complaint.~~
- ~~(b) — The fee payable under paragraph 11(6)(a) shall be refunded to the Complainant when the Integrity Commissioner files their report, except where a Complaint is found to be frivolous, vexatious, or not made in good faith the fee shall not be refunded.~~
- ~~(c) — Where a Complaint has been stayed, a Complainant may withdraw their Complaint and receive a refund of the fee~~

**(b) Hamilton Future Fund Governance Review and Reserve Strategy (FCS22045) (City Wide) (Item 10.1)**

- (i) That staff be directed to develop and execute public engagement and consultation on the Hamilton Future Fund governance and reserve strategy and report back on the results in January 2023; and,
- (ii) That the framework of the public engagement and consultation on Hamilton Future Fund governance and reserve strategy, attached as Appendix “C” to Audit, Finance and Administration Committee Report 22-011, be approved.

**FOR INFORMATION:**

**(a) CHANGES TO THE AGENDA (Item 2)**

The Committee Clerk advised of the following changes to the agenda:

**10. DISCUSSION ITEMS (Item 10)**

10.3 Governance Review Sub-Committee Report 22-002 - May 30, 2022

The agenda for the June 2, 2022 Audit, Finance and Administration Committee meeting was approved, as amended.

**(b) DECLARATIONS OF INTEREST (Item 3)**

There were no declarations of interest.

**(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 4)**

**(i) May 19, 2022 (Item 4.1)**

The Minutes of the May 19, 2022 meeting of the Audit, Finance and Administration Committee were approved, as presented.

**(d) CONSENT ITEMS (Item 7)**

**(i) Disconnecting from Work Policy (HUR22005) (City Wide) (Item 7.1)**

The following motion, was amended as follows, please refer to Item 1, for the disposition of this matter:

That Report HUR22005, respecting Disconnecting from Work Policy, be received.

That Appendix “A” to Report HUR22005, Disconnecting from Work Policy, **be amended**, by deleting the word ‘should’ and replacing it with the word ‘shall’ in Item 9, as follows:

9. Employees **shall** ~~should~~ not be penalized for disconnecting during non-work hours where it is not a job expectation.

**(e) DISCUSSION ITEMS (Item 10)**

**(i) Follow Up Audit: Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory (AUD22005) (City Wide) (Item 10.2)**

The following motion was DEFERRED until after Closed Session, please refer to Item 3, for the disposition of this matter:

- (1) That Report AUD22005, respecting the follow up of the original recommendations presented in Audit Report AUD20008 Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory be received;
- (2) That the General Manager of Public Works be directed to finish the implementation of the Management Responses listed in AUD20008 and that remain incomplete in Appendices “A” and “B” to Report AUD22005 and report back to the Audit, Finance and Administration Committee by May 2023 on the nature and status of actions taken in response to the audit report; and
- (3) That Confidential Appendix “C” to Report AUD22005, respecting the Follow Up Audit: Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory, be received and remain confidential.

**(ii) Governance Review Sub-Committee Report 22-002 - May 30, 2022 (Added Item 10.3)**

At Committee’s request Sub-Sections (a) and (b) were voted on separately, please refer to Item 4, for the disposition of this matter:

**(a) Amendment to By-law 16-288, Being a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council (Item 5.1)**

WHEREAS, Council enacted a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council, being City of Hamilton By-law No.16-288;

WHEREAS, By-law 16-288 requires the complainant to pay to the City Clerk a refundable fee in the amount of \$100.00 upon the filing of a Complaint;

WHEREAS, the refundable fee may penalize complainants from exercising their statutory rights, and may prevent legitimate complaints from being brought forward due to concerns about financial cost;

THEREFORE, BE IT RESOLVED:

That By-law 16-288, being a By-law to Establish and Govern the Office of Integrity Commissioner and Provide for the Resolution of Allegations of Contraventions of the Code of Conduct by Members of Council, be amended by deleting subsections 11.(6)(a), (b) and (c) as follows:

11. ~~(6)(a) — A Complainant shall pay to the City Clerk a refundable fee in the amount of \$100.00 upon the filing of a Complaint.~~
- ~~(b) — The fee payable under paragraph 11(6)(a) shall be refunded to the Complainant when the Integrity Commissioner files their report, except where a Complaint is found to be frivolous, vexatious, or not made in good faith the fee shall not be refunded.~~
- ~~(c) — Where a Complaint has been stayed, a Complainant may withdraw their Complaint and receive a refund of the fee~~

**(b) Hamilton Future Fund Governance Review and Reserve Strategy (FCS22045) (City Wide) (Item 10.1)**

- (i) That staff be directed to develop and execute public engagement and consultation on the Hamilton Future Fund governance and reserve strategy and report back on the results in January 2023; and,

- (ii) That the framework of the public engagement and consultation on Hamilton Future Fund governance and reserve strategy, attached as Appendix “A” to Governance Review Sub-Committee Report 22-002, be approved.

**(f) MOTIONS (Item 11)**

**(i) City Enrichment Fund Budget Request**

The following motion was DEFERRED to a future Audit, Finance and Administration Committee meeting:

WHEREAS, the City Enrichment Fund is the overall name for the City of Hamilton’s municipal investment in a wide range of program areas that supports the City’s strategic plan;

WHEREAS, the fund comprises 6 Program Areas (Agriculture, Arts, Communities, Culture & Heritage, Community Services, Environment, Sports & Active Lifestyles) with funding streams and categories;

WHEREAS, the last budget increase to the City Enrichment Fund was approved in 2019, to bring total budget allocation to \$6,088,340; and,

WHEREAS, the 2022 request from applicants totalled \$9,858,419; total value of eligible requests based on 2022 applications totalled \$8,110,633; funding allocation was capped at \$6,088,340 or 75% of the total request;

THEREFORE, BE IT RESOLVED:

That an increase to the City Enrichment Fund be forwarded for consideration to the 2023 Budget submission.

**(g) PRIVATE AND CONFIDENTIAL (Item 14)**

Committee determined that discussion of Item 14.1 was not required in Closed Session, therefore, the item was addressed in Open Session, as follows:

**(i) Closed Minutes – May 19, 2022 (Item 14.1)**

- (a) The Closed Session Minutes of the May 19, 2022 Audit, Finance and Administration Committee meeting, were approved as presented; and,
- (b) The Closed Session Minutes of the May 19, 2022 Audit, Finance and Administration Committee meeting, remain confidential.

Committee moved into Closed Session respecting Item 14.2 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 matters pertain to the security of the property of the municipality or local board.

**(ii) Confidential Appendix "C" to Report AUD22005, Follow Up Audit: Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory (Item 14.2)**

For further disposition of this matter, refer to Item 3.

**(h) ADJOURNMENT (Item 15)**

There being no further business, the Audit, Finance and Administration Committee adjourned at 10:37 a.m.

Respectfully submitted,

Councillor Pearson, Chair  
Audit, Finance and Administration  
Committee

Angela McRae  
Legislative Coordinator  
Office of the City Clerk

**Report AUD22005**  
**Follow Up Audit: Transportation**  
**Operations Inventory Audit**

**FOLLOW UP AUDIT REPORT**

**June 2, 2022**

**Office of the City Auditor**  
**Nancy Hu, Senior Auditor**  
**Brigitte Minard, Deputy City Auditor**  
**Charles Brown, City Auditor**



## Recommendation #1

We recommend that standard operating procedures be created for all inventory-related processes, including the disposal of obsolete and excess inventory (that aligns with Procurement By-Law No. 17-064), disbursement of inventory to contractors and other City employees, inventory counts and security footage review. These procedures should apply to all current and future inventory locations. These procedures should include roles, responsibilities, process flow charts, sample documents and clear instructions to assist employees understand what is expected. A change management plan should be created to introduce the new operating procedures, including training and reinforcement with staff. Procedures must be reviewed at least annually and updated (as required). Evidence of the annual review should be documented and retained for audit purposes.

## Management Response

Agreed.

The Transportation Operations & Business Initiatives sections will develop an operational plan to include all components of inventory management. The purpose of this operational plan is to document policies and procedures related to the operation and maintenance of the inventory system.

Anticipated completion date: Q3 2021.

## Follow up Status

### **In Progress.**

Eleven Standard Operating Procedures (SOPs) were published in 2021 relating to Inventory Management. The procedures include defined roles and responsibilities, process flow charts (where applicable), and sample or reference documents related to the procedure. Per staff, more procedures are in the process of being drafted which include an overarching inventory operational plan and a procedure for disbursement of inventory to contractors and other city employees. Per staff, training for staff was provided, however, documentation of attendance was not retained. Since the procedures were published in 2021, in most cases a full year has not passed. Per staff, the procedures will be reviewed and updated in 2022.

## Recommendation #2

We recommend that management implement a more robust system of measurement by incorporating performance metrics into the standard operating procedures outlined in Recommendation #1. These metrics should be monitored by management and used to enhance inventory management around obsolescence, shrinkage, waste and scrap values.

## Management Response

Agreed.

The definition of performance metrics will be a key element in the development of the operational plan. The optimization of the new metrics will be monitored through the existing performance measurement methodology via the divisional balanced scorecard and annual reports.

The definition of metrics will be in alignment with the development of standard operating procedures in recommendation #1. The reporting and monitoring of metrics via the divisional scorecard and annual report will be incorporated in the 2022 work plan.

Anticipated completion date: Q4 2021.

## Follow up Status

### **Completed.**

Performance metrics (KPIs-Key Performance Indicators) are incorporated into all published SOPs. KPIs are tracked weekly by staff and critical divisional KPIs that roll up to the departmental goals are tracked using Business Intelligence Maintenance Application (BIMA). BIMA is the input application for the Public Works Balanced Scorecard. The results (actual KPIs) are monitored using the scorecards.

Some of the KPIs documented in the SOPs are not the KPIs being tracked. Management should update these in the SOPs as part of the annual updates.

## Recommendation #3

We recommend that management review the job duties and roles performed for all positions to ensure that responsibility and accountability for inventory management is included at appropriate levels and duties are appropriately organized overall. Changes should be reflected in standard operating procedures as well as in job descriptions (as required).

## Management Response

Agreed.

The division is reviewing and will modify the organizational structure implementing the changes accordingly. The associated changes to the roles and responsibilities will be outlined in the operational plan and standard operating procedures.

Anticipated completion date: Q1 2021.

## Follow up Status

### **Completed.**

Roles and responsibilities are documented in all published SOPs including responsibilities for individuals in the field using the inventory. Additionally, the Senior Project Manager-Inventory Management role was created and filled in January 2021. Per the job description, the position is “accountable for ensuring that inventory and supply chain management for the Transportation and Operations Maintenance Division meet or exceed inventory best practices/standards...”

## Recommendation #4

We recommend that Transportation Operations management be provided with read-only access and training to view inventory levels in Hansen and run inventory reports.

## Management Response

Agreed.

Business Initiatives will coordinate immediate access to Hansen with revised permission settings and complete require training for Supervisor level and above. Business Initiatives will develop an inventory report schedule for staff reference.

Anticipate completion date: Q4 2020.

## Follow up Status

### **Completed.**

Management was provided with read-only access and training. Training was held in Q1 2021. In addition to the read-only access, three weekly reports are sent out every Monday on stock levels to other applicable positions.

## Recommendation #5

We recommend that management undertake initiatives to break down silos between various sections and build a more inclusive, cooperative and collaborative environment. Such activities should focus on building awareness, desire, knowledge, ability, and reinforcement to support change.

## Management Response

Agreed.

The operational plan will also include the development of a change management plan so that the construction of an operational plan will assist in building awareness and enhance collaboration among cross-functional groups.

Anticipated completion date: 2020-2022.

## Follow up Status

### **In Progress.**

This item is in progress, however, OCA found that there is evidence of a more collaborative culture, though there is more work to be done. The key to the successful implementation of the some of the procedures described in the SOPs are the roles and responsibilities described for individuals in the field and Superintendents. For the procedures to be effective, there needs to be cooperation/compliance among all individuals across all Transportation Operations and Business Initiatives roles in the SOPs.

## Recommendation #6

We recommend that management review the primary and secondary inventory structure and what is stored in each area. Focus should be placed on the level of risk, control and access required when decided which items are stored in primary or secondary inventory.

## Management Response

Agreed.

Management will undertake the risk-based assessment of storage and complete a Kaizen event to optimize the inventory structure and breakdown.

Anticipated completion date: Q2 2021.

## Follow up Status

### **Completed.**

A Kaizen event was completed in the summer of 2021 where there was a reorganization of the stockroom that considered the risk, accessibility, and frequency of use of many items. The OCA was able to validate that management has reviewed the primary and secondary inventory structure and how inventory is stored in each area.

## Recommendation #7

We recommend that management implement additional controls to monitor higher risk items that remain in secondary inventory. Such controls may include cycle counts, reasonability analyses, utilizing usage-tracking technology (such as vending machines and rope counters), or creating and monitoring additional inventory classifications (such as **work vehicles**).

## Management Response

Agreed.

The definition of control measures required for the secondary inventory will be in alignment with the development of standard operating procedures in recommendation #1.

Anticipated completion date: Q3 2021.

## Follow up Status

### **In Progress.**

An inventory classification method was developed as part of the Cycle Count SOP which assigns a classification to all inventory parts based on their per unit value and/or total inventory value. This classification is assigned to inventory items in both Primary and Secondary locations and the cycle count cadence is scheduled based on the classification and location of the part. A schedule based on this classification was created, however, a cycle count for items in secondary locations was not performed in 2021. Additionally, there were inconsistencies in the classification of parts which drive the cadence of the counts.

## Recommendation #8

We recommend that management record all non-consumable items as inventory in Hansen. As part of this work, management should consult with Hansen support personnel to determine whether current capital items may be recorded in Hansen for tracking purposes only without charging costs out when materials are used.

## Management Response

Agreed.

Management will prioritize the implementation of this recommendation before the end of this calendar year to ensure correct identification and tracking of all non-consumable items. Alternative approaches to Hansen will be investigated and may be adopted for tracking purposes.

Anticipated completion date: Q4 2020.

## Follow up Status

### **In Progress.**

Work still needs to be done to move non-consumable items into inventory in Hansen, however, any new non-consumables received are being added to inventory in Hansen. For example, OCA observed that there were some new traffic radios (a non-consumable) in the stockroom which were listed in inventory.

## Recommendation #9

We recommend that Business Initiatives undertake a Kaizen or Kanban exercise to improve the organization of the stockroom and other secondary locations. Consideration should be given to designating specific areas to segregate and hold materials set aside for specific projects, obsolete goods awaiting disposal and items designated as “do not inventory”.

## Management Response

Agreed.

We will undertake a Kaizen event or a methodology that results in a stockroom that is clean, uncluttered, safe and well organized.

Anticipated completion date: Q2 2021.

## Follow up Status

### **Completed.**

A Kaizen event was conducted in the summer of 2021 which resulted in an area in the yard for large obsolete items waiting disposal and a holding area for materials set aside for specific projects. In the stockroom, obsolete goods awaiting disposal and items designated as “do not inventory” are not held in one location in the stockroom. Instead, the items are tagged at their locations in the bin as “Do Not Inventory” or “Obsolete.”

## Recommendation #10

We recommend that Business Initiatives review current part numbers and improve how inventory items are classified. This should include creating individual identifiers for kit components and signage.

## Management Response

Agreed.

Business Initiatives will prioritize the implementation of this recommendation to ensure the correct identification and tracking of all existing part numbers before the end of the calendar year.

Anticipated completion date: Q4 2020.

## Follow up Status

### **In Progress.**

The process to review and create individual identifiers for kit components and signage has begun but more work needs to be done.

## Recommendation #11

We recommend that Business Initiatives include a description, picture and location code in Hansen for each part number to assist Traffic Operations Clerks locate items quickly within the warehouse.

## Management Response

Agreed, in part.

Business Initiatives will investigate alternative approaches to fulfill the need of an ideal classification and identification of the inventory. Management may not necessarily use the current system Hansen for implementation of this recommendation.

Anticipated completion date: Q2 2021.

## Follow up Status

### **In Progress.**

An SOP, "Classification and Identification of Inventory", was developed that established a labeling convention for locations by bins has been implemented. Significant strides have been made to clean up the warehouse bins. There is still some updating in Hansen to be done to ensure a complete and accurate location for all items. This location and description are in Hansen for all primary inventory. Hansen has descriptions for all secondary inventory but since secondary inventory is spread across trucks, locations are not in Hansen. Per staff, consideration for pictures/schematics of parts will be a consideration for the new EAM system which will replace Hansen. Completion of this recommendation is dependant upon EAM implementation for Transportation Operations & Maintenance (TOM) which is planned for late 2024 – early 2025 according to the EAM team.

## Recommendation #12

We recommend that management revise the returned materials policy to include more oversight and a more formal process over the reuse and disposal of goods (e.g. storage location, disbursement, etc.). A record should be kept of more significant disposed items which should be reviewed by management to identify possible product issues or warranty opportunities. Training should be provided to staff to build awareness of how items may be reused and recycled. Inappropriate behavior should be reinforced through the performance management process.

## Management Response

Agreed.

The development of a returned material policy will be incorporated in the standard operating procedures in recommendation #1.

Anticipated completion date: Q4 2020.

## Follow up Status

### **Completed.**

A “Return Merchandise Authorization (RMA) Procedure” SOP was published in April 2021 which provides guidance on materials which require repair by an approved vendor. There is also a “Materials Returned from the Street Procedure” SOP published in April 2021 which covers materials which may be replaced, damaged, obsolete, or excess. Staff uses an Order Tracking file which includes an RMA tracker tab to track RMA items sent for repair. Any disposed items would follow the “Disposal of Obsolete Excess and Dormant Inventory” SOP. Appropriate staff assess materials returned from the street. Any disposals of obsolete items are submitted by relevant staff and approved by higher management. When items that are no longer needed in the field are brought back (disposition may be scrap/obsolete, repairable, or can be reused in current condition), in the last case and after items repaired, a Stock Return ticket is used. The ticket is signed by employee and the supervisor for return of items to stock.

## Recommendation #13

We recommend that Business Initiatives reach out to Finance and Tangible Capital Assets to determine the best way to value materials returned from the street and how these transactions are recorded in Hansen. The valuation choices in Hansen should be restricted to eliminate possible data entry errors.

## Management Response

Agreed.

Business Initiatives will collaborate with Finance to define the best methodology to record system transactions and value materials returned from the street.

Anticipated completion date: Q4 2020.

## Follow up Status

### **Completed.**

Per the Materials Returned from Street SOP, parts which can be reused, or repaired parts once repaired, and warranty items are also returned to Hansen at average cost. This was decided in collaboration with Finance. When items are re-entered into Hansen it is an “adjustment” and adjustment reports are run weekly and would catch if any item was going back into Hansen at \$.01 which was what was previously noted.



## Recommendation #14

We recommend that management explore the feasibility of going paperless or adopting a paper-lite approach in both inventory management and operations. Opportunities should be explored in advance of implementing a new Enterprise Asset Management system in early 2021. A change management plan should be developed to support staff at all levels.

## Management Response

Agreed, in part.

Management will adopt a paper-lite approach in accordance with the implementation of the Enterprise Asset Management System.

Anticipated completion date: To be determined – timeframe is dependent on the implementation of the Enterprise Asset Management System.

## Follow up Status

### **In Progress.**

How the system will be used for the paper-lite approach is still to be determined by management, depending on what EAM will be able to support. Completion of this recommendation is dependant upon EAM implementation for TOM which is planned for late 2024 – early 2025 according to the EAM team.

## Recommendation #15

We recommend that management develop an inventory count procedure describing the strategy and methodology to be followed for both year end and cycle counts. Management should oversee and monitor staff performance during inventory counts, including observation during the count, review of count documents and performing sample recounts.

## Management Response

Agreed.

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

Anticipated completion date: Q4 2020.

## Follow up Status

### **In Progress.**

A Year-End (YE) Inventory SOP and Cycle Count SOP was published in February 2021 which details the strategy and methodology to be followed for each of the respective counts including criteria for recounts. OCA observed portions of the 2021 YE inventory performed the week of January 4, 2022

and subsequent documentation in January and February 2022. For cycle counts, there was no documentation for 2021 secondary inventory cycle counts, only primary inventory cycle counts. Additionally, the count for the primary inventory cycle counts were entered into a spreadsheet for the monthly count but the physical count sheets were not retained. Per staff, for 2022 cycle counts, they will be retained. OCA also identified some inconsistencies with the classification assignment and cycle count frequencies as described per the SOP so more work is needed towards properly conducted and documented cycle counts.

## Recommendation #16

We recommend that management create a schedule indicating when cycle counts will occur and what will be counted. Staff should provide the cycle count forms to management at the end of the count for review and approval.

## Management Response

Agreed.

Business Initiatives will prioritize the implementation of this recommendation to create a schedule for cycle counts before the end of the calendar year.

Anticipated completion date: Q4 2020.

## Follow up Status

### **In Progress.**

A schedule for cycle counts of primary and secondary inventory was created for 2021 and 2022. As noted in items 7 and 15 above, there are still aspects of the cycle count procedure which need to be performed in compliance with the SOP. Cycle count forms are not retained after the counts are entered into the monthly cycle count form (an Excel spreadsheet). Counts are reviewed by staff from the spreadsheet. Per staff, for 2022 cycle counts, and count sheets will be retained.

## Recommendation #17

We recommend that management implement safeguards for adjusting inventory within the system. One consideration may be for management to review and approve all inventory adjustments on a weekly basis. Management should compare the adjustment to the count form and explanations provided by staff to validate that the adjustment is appropriate. Management should sign and retain the transaction listing, along with supporting documentation, as evidence of their review for future audit purposes.

## Management Response

Agreed.

The associated changes to the roles and responsibilities for inventory adjustments will be outlined in the operational plan and standard operating procedures.

Anticipated completion date: Q4 2020.

## Follow up Status

### **Completed.**

Relevant staff reviews inventory adjustments and tracks related adjustment KPIs weekly. A weekly report for inventory adjustments is run and relevant staff reviews the adjustments made and investigates and inquires as needed. These also include any adjustments made as a result of a scheduled cycle count.

## Recommendation #18

We recommend that management recommit to the nine management action plans outlined in the original 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.

## Management Response

Agreed.

All outstanding recommendations will be addressed by the Transportation Operations & Business Initiatives sections with the development of an operational plan to include all components of Inventory Management.

The purpose of this operational plan is to document policies and procedures related to the operation and maintenance of the inventory system.

Anticipated completion date: Q3 2021.

## Follow up Status

### **In Progress.**

During the follow-up performed as part of the Audit Report 2020-04 Transportation Operations Inventory Audit (AUD20008), of the nine audit recommendations originally made in the Audit Report 2013-17-Public Works-Traffic Inventory (AUD14017), two recommendations were in progress, two recommendations were initiated and five remained not completed.

As of February 2022, three recommendations are completed, five are in progress, and one remains not completed.

The three completed recommendations are regarding Parts and Materials Orders (minimum re-order quantities) and Inventory Manufactured In-House (updating of table to cost in-house manufactured signs).

The five that are in progress are regarding Inventory Management (tracking of parts used on Daily Activity Sheets), Parts and Materials-Segregation of Duties (additional controls needed to mitigate SODs), Stock-Year-end Inventory and Physical Inventory Count (issues with cycle counts keeping three items from being deemed complete).

The one item that is not complete is related to management performing reviews to compare the quantities of materials transferred from the stockroom to the in-house sign shop and the quantities of materials tracked on the Daily Activity Sheets. This is to assess whether raw materials are being used in an efficient manner for intended purposes

Please note that there are four additional recommendations with Follow Up Audit updates contained in the Confidential Appendix "C" to Report AUD22005.

# **Follow Up to Fraud & Waste Investigation – Case 2020-28312 Control Weaknesses Related to Specialized Copper Wire**

**June 2, 2022**

**Office of the City Auditor  
Nancy Hu, Senior Auditor  
Brigitte Minard, Deputy City Auditor  
Charles Brown, City Auditor**

## Table of Contents

Introduction .....	3
Vulnerability #1: Careless Disposal of Copper Wire .....	3
Vulnerability #2: Inadequate Tracking of Copper Wire Usage .....	4
Vulnerability #3: Errors Recording Copper Wire Usage in Hansen .....	6
Vulnerability #4: Inadequate Safeguarding of Copper Wire Assets.....	7

## Introduction

The OCA completed an investigation and substantiated that there was copper wire missing and identified four vulnerabilities. This follow up audit assessed the progress made by management in addressing the recommendations made by the OCA to address the vulnerabilities. A follow up status is listed for each vulnerability based on work performed by the OCA.

## Vulnerability #1: Careless Disposal of Copper Wire

The copper wire that was deemed obsolete, was disposed of in a way that could have been misappropriated as it was tossed into an open dumpster at the Traffic Operations Centre (TOC). This dumpster is accessible to any City staff, at any given time, as some staff use the gas pump at the TOC to fuel their City vehicles. As noted above, this material was listed in the 2019 Year End Inventory report as part number TRSG1966, 2,000 m of copper wire valued at approximately \$5K. However, the value noted on the inventory report reflects the cost of the item to the City, rather than the scrap value of the item. The two Team Lead's who decided to scrap this wire because it was deemed obsolete did so without giving thought to the potential value of this asset.

## Recommendations

It is recommended that the process of disposing of assets be consistent with that outlined in the Procurement Policy section 4.16 (1) the Disposal of Surplus and Obsolete Goods. That is, the Director of the client department shall:

- a) declare a good as surplus or obsolete to the needs of the City before it may be disposed; and,
- b) recommend the appropriate disposal methods, which are cost effective and in the best interest of the City, for the declared surplus or obsolete good.

It is recommended that when disposing of assets containing copper wire, the Traffic Operations Centre Management work together with the Manager of Procurement and the City's Director of Financial Services & Corporate Controller in a manner consistent with Procurement Policy section 4.16 (2) to obtain the best scrap value and/or wholesale value for the item(s) being disposed.

It is recommended that all scrap metals be kept under constant surveillance to guard against theft and to ensure that they are disposed properly.

## Management Response

Agreed.

A full review and training on the Procurement Policy is underway. The Transportation

Operations and Business Initiatives sections will coordinate with Corporate Security to ensure appropriate disposal methods of copper wire. The definition of a returned material policy will be in alignment with the construction of standard operating procedures in recommendation #1 from Appendix B (in AUD20008).

Anticipated completion date: Q4 2020.

## Follow up Status

### **In Progress.**

An SOP was published in October 2021 regarding the Disposal of Obsolete Excess and Dormant Inventory. It is in alignment with the current Procurement Policy (By-Law No. 20-205) Section 4.16, Policy # 16 - Disposal of Surplus and Obsolete Goods.

OCA observed that the same copper wire part number TRSG1966 as noted in the investigation is sitting in the yard of the compound instead of being in the secured cage in the garage designated for copper wire. The yard of the compound is now secured by restricted gated access and there is a fence around the perimeter. Per staff, this cable is rarely used. Even though the cable may be of limited or infrequent use by the field, it still has scrap value beyond its daily usage and should be stored in a secured location.

## Vulnerability #2: Inadequate Tracking of Copper Wire Usage

The amount of copper wire used is not tracked adequately. The copper wire spools known as part numbers TRSG1967, TRSG1970 and TRSG1994, are stored in the garage near the staff trucks. At the start of their work day, the staff pull the length of different copper wires needed from these spools and load it onto their work trucks. The amount of wire taken is neither recorded by these staff nor by the clerical staff as the copper wire spools are not located in the main stockroom.

When the staff finish their job, they complete the Daily Activity Sheet (DAS) and indicate the quantities of materials used. At the end of their shift, the staff return to the Traffic Operations Centre and discard any scrap copper wire left over from the job into the dumpster, located at the back of the TOC. The staff submits their DAS to the Team Lead. On the DAS, the Team Lead can see the amount of wire reportedly used by the TSS. However, the amount of wire scrapped by the staff is not reported. Therefore, a reconciliation cannot be performed to ensure that the amount of wire loaded onto the truck, corresponds to the amount of wire used on a job and the amount that is scrapped upon return to the TOC location at the end of the shift. In addition, third party contractors working on City projects will sometimes come to the



Traffic Operations Centre and pull out lengths of copper wire from the spools in the garage themselves, without TOC staff or management knowing the amount of wire that was taken.

## Recommendations

It is recommended that the spools with the copper wire part numbers TRSG1967, RSG1970 and TRSG1994 are stored in a location where they will only be distributed by the clerical staff.

It is recommended that the staff, at the end of their work day, return any waste or unused copper wire to the clerical staff instead of disposing of the wire themselves.

It is recommended that clerical staff maintain a log showing the amount of copper wire pulled off the spools; to whom the wire was issued (including third party contractors); and the amount of wire returned to be scrapped at the end of the day.

It is recommended that Team Leads perform spot checks on a regular basis by comparing the amount of wire issued to the amount of wire used (as indicated on the DAS), and the amount of wire returned for scrap. Management should also investigate whenever the amount of wire issued exceeds the sum of that used and that returned for scrap.

## Management Response

Agreed.

Management will undertake the risk-based assessment of storage and complete a Kaizen event to optimize the inventory structure and breakdown. Copper wire stock will be moved into primary stock location as part of the reorganization of the facility.

Anticipated completion date: Q2 2021.

## Follow up Status

### **In Progress.**

For copper wire/cable needed that is kept in a primary stock location (locked, secured cage), when copper wire is needed by field staff, they submit a Stock Pick Ticket to clerical staff. Clerical staff will then go into the secured cage and cut the amount requested. The Stock Pick Tickets serve as a record of what was issued and to whom it was issued. There is no separate log tracking for this. Any copper wire issued but not used may be kept on trucks for future projects. Any scrapped cuttings are to be returned to the clerks. There are also separate secondary inventory locations which include wire/cable issued to field staff which are kept in their trucks, a cable trailer, and the yard (see Vulnerability #1 re: TRSG1966). These can be accessed directly by field staff. Per management, the cable trailer location is necessary for operational requirements and security coverage was considered by Corporate security's review. There are procedures drafted in the Cable Management and Reconciliation SOP for a

supervisor to perform periodic audits and spot checks. These audits are to be performed at least once a month and documented. At the time of this review, these spot checks were not being performed. Redefining audits and spot checks will be incorporated in Revision 02 of the Cable Management and Reconciliation SOP.

### **Vulnerability #3: Errors Recording Copper Wire Usage in Hansen**

The data entry of copper wire usage into Hansen is prone to errors. Upon receiving the TSS Daily Activity Sheet, the Team Lead reviews and authorizes the DAS. The authorized DAS are forwarded to the clerical staff. The clerical staff enter the activity into Hansen including the amount of wire used. Since this is a manual process, there will sometimes be a difference between the amounts recorded in the DAS and the amounts keyed into Hansen.

The OCA compared the copper wire usage reported on the DAS to what was keyed into Hansen over the past four years (2017 to 2020). The OCA noted that the variance was greatest for copper wire TRSG1994 CABLE 14-14; the most expensive of the three copper wires in this review. In 2019, the usage reported by Daily Activity Sheets was 724 m less than that reported by Hansen. The value of this discrepancy totalled approximately \$4,900.

### **Recommendations**

It is recommended that periodic reconciliations be performed to ensure that the quantities of materials used by staff, as reported on the Daily Activity Sheets, are accurately recorded in Hansen. A record of such reconciliations should be retained for at least three years.

It is recommended that management investigate and implement a method to automate the uploading of the actual quantity of materials used by staff in the field from the Daily Activity Sheets into Hansen.

### **Management Response**

Agreed.

The associated changes to the roles and responsibilities for inventory adjustments will be outlined in the operational plan and standard operating procedures related to inventory adjustment. Staff corporate policy training to be completed in Q4 – 2020, as per recommendation in Vulnerability #1.

Anticipated completion date: Q1 2021.

## Follow up Status

### **In Progress.**

There are no periodic reconciliations of quantities used by staff as reported on the DAS to ensure they are accurately recorded in Hansen. Per staff, between the spot checks in the Cable Management and Reconciliation SOP as mentioned in Vulnerability #3 and the Year-End Inventory and Cycle Counts, this would help maintain accurate inventory amounts in Hansen.

The spot checks were not performed in 2021 (as noted in Vulnerability #2 above). Per Management, redefining audits and spot checks will be incorporated in Revision 02 of the Cable Management and Reconciliation SOP. Copper wire was not counted as part of the 2021 Cycle Counts.

Staff is advocating for capabilities in Enterprise Asset Management (EAM), the new asset management system to replace Hansen, to possibly allow for the loading of the actual quantity of materials used directly into the system, rather than rely on manual documentation on timesheets (DAS). Completion of this recommendation is dependant upon EAM implementation for Transportation Operations & Maintenance (TOM) which is planned for late 2024 – early 2025 according to the EAM team.

## Vulnerability #4: Inadequate Safeguarding of Copper Wire Assets

The 2019 Year End Inventory report indicated that a total of 14,394 m of copper wire (part numbers TRSG1967, TRSG1970 and TRSG1994,) with a combined value of \$52.6K, was stored in the compound outside of the garage. That is, when the inventory count was taken in late December 2019, these wires were stored in the outside yard. Here, they would have been accessible to different City staff that use the TOC gas pumps to fuel their City vehicles after regular business hours. When questioned, both management and the clerical staff stated that this type of copper wire has never been stored in the compound outside the garage. However, they could not produce any documentation showing who counted this inventory and where the copper wire was stored while being counted.

The three wire cables have indicators placed at regular intervals on the rubber sheathing covering the copper cable. These indicators show the amount of wire remaining on each spool. It was not possible to validate that these indicators were used to calculate the amount of wire remaining in inventory.

TOC Procedures indicate that periodic cycle counts are usually performed on inventory items with high value or those that cycle in and out of inventory quickly. Yet, despite their high value, part numbers TRSG1967, TRSG1970 and TRSG1994 were not included in the cycle counts in 2019 or 2020.

## Recommendations

It is recommended that management re-organize the storage and inventory of all copper wire at the Traffic Operations Centre to ensure that all copper wire is stored in a secure location, safeguarded from potential theft.

It is recommended that periodic cycle counts performed throughout the year include all copper wire and that the indicators on the rubber sheathing be used as a quick way to gauge the amount of wire in inventory.

## Management Response for this Section

Agreed.

Copper wire stock will be moved into primary stock location as part of the reorganization of the facility. Management will create a schedule for inventory counts.

Anticipated completion dates: Q2 2021 for relocation of copper wire. Q4 2020 for cycle counts (to align with Recommendations #19 and #20 in Appendix "B" in Report AUD20008).

## Follow up Status

### **In Progress.**

A locked cage has been set up in the garage as a primary stock location and most of the copper wire has been moved to this location. There is restricted access to the lock key. Exceptions to this are the cable (TRG1966) sitting out in the yard of the compound noted in Vulnerability #1 and the copper wire in secondary stock locations (trailer and some surplus on trucks as noted in Vulnerability #2).

Copper wire/cable was not counted as part of the 2021 Cycle Counts. Per staff, the copper wire was not moved to the secured location until Q4 2021, so it was just counted as part of the annual inventory in January 2022. For 2022, it is intended to be counted as part of the regular cycle count schedule.

OCA noted there were challenges to getting an accurate measurement on spools which have been partially used. There are measurement indicators on the rubber sheeting of the cable, however, that is not necessarily an indication of the length on the spool. For example, the end measurement on a spool may say "1365 m," but not all spools of cable start with a "1 m" measurement indicator. Also, if it is not possible to access the innermost point of the cable to read the measurement indicator, there is no way to know exactly how much cable is on the spool. Additionally, some spools count "up," meaning the end measurement indicator may say "1365 m" and the next measurement going towards the inner part of the spool may say "1366 m."

The new cable and wire tender specify that the vendor provides the cable reels with the cable indicators starting at 0 and counting up; however, for some of the spools currently in inventory this may not be the case. Unless they are unopened/unused

spools where the full spool amount is known or the innermost cable measurement can be accessed, inventory counts of cable/copper wire are at best, an estimate.

OCA recommends noting the end measurement indicator on a spool when it is first used and even if estimates have to be used for cycle counts and year-end inventory count, a final adjustment can be made when the spool reaches the end and the inner measurement indicator can be read to verify the amount that was on the spool.



Hamilton

**HAMILTON FUTURE FUND  
PUBLIC ENGAGEMENT  
FRAMEWORK**



# Hamilton Future Fund Public Engagement Framework

As part of the Hamilton Future Fund Review and Reserve Strategy, citizens will be consulted through a survey on Engage Hamilton on their opinions on fund governance and the use of the reserves.

## **Fund Governance**

### Option 1

Maintain existing governance structure with the Hamilton Future Fund Board of Governors making recommendations to Council on investments of Funds A and B.

Fund A will continue to be a permanent fund to be invested in capital initiatives and Fund B will continue to fund City and community initiatives.

# Hamilton Future Fund Public Engagement Framework

## Option 2

Change the governance structure by eliminating the Hamilton Future Fund Board of Governors and transfer Funds A and B to City Council for decision making.

Funds will be invested in the short term with significant impact to the selected initiatives and will be closed once all the funds have been allocated.



# Hamilton Future Fund Public Engagement Framework

## **Use of Reserves**

Under both options, the Hamilton Future Fund will continue to invest in City's Strategic Priorities. Citizens will be consulted on investments in the following areas of focus:

- Municipal infrastructure asset management
- Investments in affordable housing
- Time limited investments in Strategic Priorities
- Supplemental funding for City Enrichment Fund

# Hamilton Future Fund Public Engagement Framework

