



**REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE**

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Pending #:

**TO:** FINANCE AND CORPORATE SERVICES COMMITTEE

**PREPARED BY AND KEY CONTACT:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT EXT# 5452

**SUBMITTED BY:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT

**GENERAL MANAGER APPROVAL:** N/A

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

**DATE:** SEPTEMBER 27, 2017

**SUBJECT:** 2<sup>ND</sup> AND 3<sup>RD</sup> QUARTER INTERNAL AUDIT STATUS REPORT

**WARD:** ALL

**RECOMMENDED MOTION**

1. That the 2<sup>nd</sup> and 3<sup>rd</sup> Quarter Internal Audit Status Report be received as information.

**PURPOSE & BACKGROUND**

2. The following report provides a summary of the Internal Audit activities undertaken during the second and third quarters of the City's fiscal year, April to September 2017:

#	Project	Focus	Status
1	Stores	Process review	Complete
2	Cash handling	Process review: Service Barrie	Complete
3	Entity level controls	Consulting: Code of Conduct	Complete
4	Entity level controls	Consulting: Fraud and Wrongdoing (Whistleblower hotline) Program	Complete
5	Cash handling	Process reviews: Legislative and Court Services, Mady Centre	In progress
6	Use of Consultants	Value for Money	In progress

3. In addition to the projects noted above, Internal Audit provided ad hoc consultations to departments, completed one confidential investigation, and filled the previously approved internal auditor position to add a second resource to the department.
4. The projects in progress will be included in the next Internal Audit update to the Finance and Corporate Services Committee upon completion.



**ANALYSIS**

**STORES**

Background

- 5. The Finance department, through its Purchasing branch, currently oversees two store locations, at the Operations Centre and the Surface Water Treatment Plant, to support immediate day-to-day needs of the Roads, Parks and Fleet and Water Operations departments (Operational departments) as well as other departments at the City as needed. Stores primarily maintains inventories of commonly used items to ensure necessary materials and equipment are available to City staff when required.
- 6. There are three Storepersons working between the two Stores locations. Stores operating hours are from 7:30am to 4:00pm with Storepersons on-call outside of these hours to provide support as needed.
- 7. The approximate value of inventory held at Stores as at December 31, 2016 is:

Stores A (Operations Centre)	Stores B (Surface Water)	Total
\$250,000	\$475,000	\$725,000

Objective

- 8. The objectives of this review were to understand the nature and scope of the Stores function and to review the efficiency and effectiveness of the Stores operations.

Methodology

- 9. The following activities were performed:
  - a) Review of Stores documentation;
  - b) Review of accounting records related to Stores inventory;
  - c) Meetings with staff in Stores, Roads Parks and Fleet, Water Operations and Wastewater Operations, and the Centre for Continuous Improvement;
  - d) Tours of Stores facilities; and
  - e) Observation of Stores operations.

Findings

- 10. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix “A”. The recommendations relate to the following areas:

Area	# Recommendations
Operations	4
Financial Reporting	2
Physical Security	1
Policies and Procedures	2
<b>Total</b>	<b>9</b>



Conclusion

- 11. Processes and controls exist within Stores to safeguard inventory, however, the current framework for the function does not meet the needs of its customers resulting in underutilized operation. Departments supported by Stores see value in the function but the existing structure and parameters for use are not aligned with their needs. Recommendations addressing changes to operations, financial reporting, physical security and policies and procedures will improve integration of the Stores function with its customers as well as enhance controls to safeguard City assets.

**CASH HANDLING – SERVICE BARRIE**

Background

- 12. In connection with a broader corporate-wide cash handling project, a review of Service Barrie’s cash handling practices was completed to assess if processes and controls are sufficient and whether efficiencies can be gained to improve operations.

Objective

- 13. The objective of this review was to understand the sources of cash handled by Service Barrie and the procedures followed by staff to serve customer needs and safeguard City employees and assets.

Methodology

- 14. The following activities were performed:
  - a) Review of procedures for Service Barrie related to cash;
  - b) Review of City records supporting Service Barrie operations;
  - c) Meetings with Service Barrie staff;
  - d) Tour of Service Barrie; and
  - e) Observation of cash handling.

Findings

- 15. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix B. The recommendations relate to the following areas:

Area	# Recommendations
Operations	2
Physical security	2
Policies and procedures	1
<b>Total</b>	<b>5</b>

Conclusion

- 16. Since Service Barrie commenced operations in November 2016, it has implemented effective procedures and controls to address the inherent risks of cash handling. Future enhanced automation of sales would reduce the potential for human error and increase the efficiency of operations. Recommendations around operations, physical security and formalizing cash handling procedures will further safeguard City employees and assets as Service Barrie’s operations expand and mature.



## **ENTITY LEVEL CONTROLS**

### Code of Conduct

17. The City's previous Code of Conduct for staff was approved in January 2012. Given organizational changes since that time, and the importance of a Code of Conduct as a key element of the City's control environment, a review of the Code of Conduct was completed by Internal Audit and Human Resources. The Code of Conduct clearly states the City's commitment to doing the right thing and acts as an ethical guide for staff. The Code of Conduct clarifies the expected performance standard and explains how staff must conduct themselves when representing or acting on behalf of the City.
18. Members of Council and Committee have a separate Code of Conduct and, while future changes to the Council and Committee Code of Conduct may be proposed to address changes in Provincial legislation, the new staff Code of Conduct does not result in any changes to the Council and Committee Code of Conduct.
19. The new Code of Conduct for staff is written in plain English and is accompanied by a Handbook that provides guidance and Frequently Asked Questions for additional clarification. A new requirement for staff to confirm their compliance with the Code of Conduct on an annual basis has been introduced to ensure staff demonstrate a continuing commitment to ethical behavior and accountability.

### Fraud & Wrongdoing Program

20. A whistleblower is a person who exposes any kind of information or activity that is illegal, unethical, or not correct within an organization. Integrated with the roll out of the updated Code of Conduct for staff is the launch of a two year pilot for a new whistleblower program available to City staff. Subsequent to a forensic investigation by Deloitte in 2015, a recommendation was made for the City to implement a formal whistleblower program for staff to supplement existing mechanisms for reporting concerns.
21. The whistleblower program, named the "Fraud & Wrongdoing Program" and overseen by Internal Audit, formalizes a program by which staff can report concerns of fraud or wrongdoing without fear of retaliation. In addition to existing methods for reporting concerns directly to supervisors or other City employees, staff will also have the ability to report with anonymity if desired by phone, through a website or a P.O. Box all of which are operated by an independent third party, Clearview Connects. During the initial two year pilot, the Fraud & Wrongdoing Program will not be available to members of the public as other means of reporting currently exist for the escalation of their concerns through resources such as Service Barrie, the Integrity Commissioner and the Provincial Ombudsman.
22. The new Code of Conduct, Code of Conduct Handbook, and Fraud & Wrongdoing Program policies were circulated to council for their information in a staff memo dated August 31, 2017.



**LINKAGE TO COUNCIL STRATEGIC PRIORITIES**

The information included in this Staff Report supports the following goal identified in the 2014-2018 Strategic Plan:

Responsible Spending

23. Implementation of the recommendations identified in the Internal Audit projects will achieve enhanced processes and controls to protect the City's assets as well as increase efficiency in the delivery of services.



Appendix “A” – Stores Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
<p><b>1. Reporting structure</b></p> <p>Storepersons currently report to the Finance department, through Purchasing, but work functionally with the departments where they are physically located (Roads, Parks &amp; Fleet and Water Operations).</p> <p>Certain tasks performed by Storepersons relate to operational areas supported but there is no formal reporting to operations.</p> <p>The current process for the approval of Stores purchases is inconsistent between the two Store operating locations as specified by different departments.</p> <p>Storepersons are not fully integrated with the operational areas where they reside and support.</p>	<p>Implement direct reporting for Stores to the operational departments it supports and dotted line reporting for Stores to Purchasing which will provide support for procurement practices and requirements.</p> <p>Reporting directly to the departments where Storepersons are physically located, and to which they support, will increase connectivity and allow greater integration of Stores with operations.</p>	<p><b>Operational Department Responses:</b> Agreed – but caution that in order to achieve the optimum outcome, such things as job description changes both for those directly connected to stores and to other existing departmental positions expected to provide coverage and support to Stores must be altered.</p> <p>Process for approvals should become common - but perhaps this should be preceded by the implementation of SAP to avoid too many repetitive alterations.</p> <p><b>Finance Response:</b> The recommended model will allow for better utilization of the Stores staff for the operating departments. As well, the dotted line report to Purchasing will allow for opportunities to continue to support Stores.</p> <p><b>Responsibility for implementation of recommendations:</b> Joint responsibility between Operational departments and Finance</p>



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<p><b>2. Valuation of inventory</b></p> <p>Inventory in the financial statements is potentially understated as supplies and materials held by departments outside the Stores function are not consistently recorded as inventory.</p> <p>Currently in Great Plains, supplies and materials purchased are expensed immediately and then the remaining inventory asset value, if any, is adjusted to actual at year end when an inventory count is performed.</p>	<p>Determine the quantity and dollar value of inventory maintained by departments outside of the Stores function.</p> <p>Assess the impact of the value determined for inventory held outside of Stores on the financial reporting for the City.</p>	<p><b>Operational Department Responses:</b> Ultimately, all inventory should be properly accounted for.</p> <p>The process for this should be as automated as practicable before attempting to do so.</p> <p><b>Finance Response:</b> The recommended motion will help to improve the accuracy of financial information, and potentially provide savings through more efficient management of inventory across all operating departments.</p> <p>In order to be successful, it is recommended that a project team be put together, led by an appropriate project manager. With current work plans, including implementation of an ERP, resourcing this initiative could be a challenge in the immediate term. However, the finance department will support this initiative.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>
<p><b>3. Inventory held outside of Stores</b></p> <p>There is no formal requirement for departments to utilize the Stores function.</p> <p>Staff use PCards to procure goods directly in addition to, or instead of, using the Stores function.</p> <p>Departments do not have consistent processes and controls to manage and monitor inventories maintained outside the Stores function.</p>	<p>Assess the benefit of formalizing a requirement for departments to utilize Stores for the purchase of commonly used goods.</p> <p>For all inventories maintained outside the Stores function, develop processes and controls for the management of inventory to ensure departments can readily monitor and manage their inventory as well as assess the quantity and dollar value of goods on hand.</p>	<p><b>Operational Department Responses:</b> While the Stores function should be the primary method of obtaining goods and services necessary to provide requisite service, the other options (P-Card) should be retained to enable nimbleness of necessary requisite service response for things that would only be delayed with normal Stores involvement – but the inventory reporting aspects should cover all procurement methods.</p> <p><b>Finance Response:</b> See Finance answer above.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>



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<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
<p><b>4. Availability of specific inventory</b></p> <p>The existing Stores inventory does not meet all user preferences/needs.</p> <p>Goods needed for operations that are not maintained by Stores are purchased by the departments directly.</p>	<p>Initiate discussions between Storepersons and departments to specify and review inventory required that is not currently in Stores inventory for future inclusion in Stores.</p>	<p><b>Operational Department Responses:</b> Again, all inventory should be properly accounted for – once our processes are adequately automated.</p> <p><b>Finance Response:</b> See Finance response above.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>
<p><b>5. Operating hours</b></p> <p>Current operating hours for Stores do not consistently align with the needs of operational departments it supports.</p>	<p>Initiate discussions between Stores and operational departments to determine options for access required to meet the needs of users.</p>	<p><b>Operational Department Responses:</b> Operating hours and retrieval opportunities/availability should be designed with Operational requirements being the paramount driver.</p> <p><b>Finance Response:</b> Agree with the recommendation. Having Stores report directly to the operating departments will facilitate this opportunity.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>
<p><b>6. Inventory counts</b></p> <p>Inventory is counted once a year by Storepersons who are not independent of the ongoing management of the inventory.</p>	<p>Internal Audit should perform testing of the inventory counts performed by Storepersons, and any additional inventory held by the City outside of Stores, to provide an independent assessment of the completeness and accuracy of the inventory.</p>	<p><b>Operational Department Responses:</b> Inventory evaluation should be done in a competent and auditable fashion – employing current technologies to improve speed, accuracy and confidence.</p> <p><b>Finance Response:</b> Agree with recommendation. The independent oversight will achieve the objective of improved accuracy, as well as an additional level of internal control.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments and Internal Audit</p>



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<p><b>7. Physical security</b></p> <p>Physical security in the Stores warehouse can be improved.</p>	<p>Review the physical security for stock held by Stores to ensure a consistent level of security for inventory held at both Stores locations.</p>	<p><b>Operational Department Responses:</b> Stores physical security must be robust and competent – but should recognize the “raison d’etre” for Store existence and that is to provide timely efficient service to Operational service needs – for failing that there is no reason to have Stores.</p> <p><b>Finance Response:</b> Agree with recommendation.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>
<p><b>8. Non-inventory items</b></p> <p>“Non-inventory” items are goods or materials in Stores that are used by various departments and then charged back to individual departments based on actual usage. Examples include: power equipment, traffic cones, hand tools, Personal Protective Equipment (PPE).</p> <p>“Non-inventory” items are not recorded in Great Plains which results in less clarity for the tracking of these supplies and materials.</p>	<p>When SAP goes live, non-inventory items can be recorded in inventory which would address this observation.</p> <p>Until SAP goes live, the non-inventory items should be assessed to determine whether manual tracking of quantities and inventory values throughout the year would be advantageous to departments or Finance.</p>	<p><b>Operational Department Responses:</b> In favour, provided that the SAP provides for this to be done with ease and doesn’t create “busy work” without benefit.</p> <p><b>Finance Response:</b> Agree with recommendation.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>
<p><b>9. Policies and procedures</b></p> <p>While general guidance exists, formalized and documented policies and procedures for the operation of the Stores function do not exist.</p>	<p>Formalize and communicate documented procedures for the operation of the Stores function which will define responsibilities and clarify expectations for staff.</p>	<p><b>Operational Department Responses:</b> Absolutely agree that Roles, Responsibilities and Expectations should be clearly defined in a fashion that can be monitored and evaluated.</p> <p><b>Finance Response:</b> Agree with recommendation.</p> <p><b>Responsibility for implementation of recommendations:</b> Operational departments</p>



Appendix “B” – Service Barrie Cash Handling Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
<p><b>1. Safeguarding cash and equivalents</b> Security measures over cash and equivalents have been implemented with the launch of Service Barrie but can continue to be enhanced as the operations mature.</p>	<p>Review physical security and operating protocols related to cash and equivalents to ensure continued enhancement of security for employees and City assets.</p> <p>Restrict access to secure areas to authorized Service Barrie staff.</p> <p>A formal process for tracking and monitoring cash equivalents disbursed by Service Barrie should be developed.</p>	<p>New procedures will be developed and documented as a result of physical environment changes and input from the Corporate Facilities security audit. Staff will receive training on the new procedures.</p> <p>Renovations are planned for Q4 2017 which will enable access to be more effectively restricted.</p>
<p><b>2. Shared cash floats and system access</b> Cash floats and system access logins are shared between staff which limits the ability to attribute cash handling transactions to a specific individual.</p>	<p>Assess the ability to assign separate cash tills and system access to each staff handling cash to provide individual accountability.</p>	<p>Service Barrie will investigate options within Great Plains, Sungard, Ticket Tracer and Accela to meet this recommendation.</p> <p>Introduction of a Point of Sale System (POS) is being considered as part of the 2018 budget as identified by Innovate Barrie.</p>
<p><b>3. Combinations for safe and vault room</b> A formalized procedure to change the combinations for the safe and vault room is not in place.</p>	<p>Formalize a procedure to change combinations for the safe and vault room on a periodic basis (i.e. annually) or if there are other significant changes.</p>	<p>Agreed. Service Barrie staff will review and formalize a policy and procedure for this area.</p>
<p><b>4. Point of Sale System</b> Multiple sales systems are used by Service Barrie and manual consolidation of total service delivery, for entry into the City’s financial system, is required which is time consuming and susceptible to human error/potential abuse.</p>	<p>Following on previous department initiatives considering point of sale systems, assess current viable options for an automated point of sales system that will allow for reporting and receipting for all Service Barrie functions and integrate with the City’s financial system.</p>	<p>Service Barrie reviewed the option to use the same point of sale system as Recreation called Activenet. Given the current contract in place, Service Barrie would see an increase to its annual operating budget which was not economically feasible.</p> <p>Introduction of a Corporate POS is being recommended as part of the 2018 budget as identified by Innovate Barrie.</p>



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<b>5. Policies and procedures</b> Documented policies and procedures for Service Barrie cash handling can be enhanced.	Existing policies and procedures should be updated, formalized and communicated to staff.	Service Barrie Staff will review and update all cash and equivalent handling policies and procedures.  Service Barrie will work with Human Resources to confirm and formalize the draft security protocol. Training for all Service Barrie staff will be incorporated and embedded into future training.