

INTERNAL AUDIT REPORT OF DEVELOPMENT AND TRANSPORTATION ENGINEERING

(Referred from Council Meeting of May 12, 2008, Item 1, Report No. 2)

Council, at its meeting of May 12, 2008, adopted the following:

Recommendation of the Audit and Operational Review Committee, May 6, 2008:

"The Audit and Operational Review Committee recommends that this matter be referred to the next Audit and Operational Review Committee meeting."

Report of the City Auditor dated May 6, 2008.

Recommendation

The City Auditor recommends:

That the Internal Audit Report of Development and Transportation Engineering be received.

Economic Impact

The recommendations suggested by the auditor and the implementation of corrective actions in the audit report, will improve the effectiveness of risk management, control and governance processes of the department. Some impact will be economic and will be measurable in dollar terms, while others will provide intangible benefits which may not be measurable. Other benefits will be an improvement in the efficiency and effectiveness in the operations of the department. Internal Audit adds value to all areas of City activity which are audited.

Communications Plan

This is to be addressed by the Corporate Communications department.

Purpose

To present to the Audit Committee, the Internal Audit Report of Development and Transportation Engineering .

Background - Analysis and Options

The audit was part of the Internal Audit Work Plan which was approved by the Audit Committee.

The internal audit report is provided as an attachment. The report explains the definition and objective of internal auditing as well as the scope of internal audit work. The report includes, for all deficient items, (1) the observations of the auditor, (2) the implications, (3) the auditor's recommendations, (4) the commissioner's response for corrective actions and (5) the auditor's response to the corrective actions.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable

Conclusion

1. Based on the scope of audit work mentioned in the beginning of the audit report, areas reviewed were considered to be operating effectively, except for the noted observations for which the auditor made recommendations for improvement.
2. The commissioner and director of the department/operation audited, have responded favourably to all observations and recommendations in the Internal Audit Report.
3. When all corrective actions are implemented, (1) internal controls will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the department/operation will operate more effectively and efficiently and (4) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

Attachments

Internal Audit Report of Development and Transportation Engineering .

Report prepared by:

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

Respectfully submitted,

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor



The City Above Toronto

April 9, 2008

Michael DeAngelis
City Manager
City Of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
Canada L6A 1T1

The City of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
Canada L6A 1T1
Tel [905] 832-2281

Dear Michael DeAngelis,

Re: Internal Audit of Development and Transportation Engineering

I have completed the internal audit of Development and Transportation Engineering. This audit was included in the three year audit work plan.

A follow-up letter will be sent to the auditee, 30 days from the issue date of this Internal Audit Report, requesting the status of Corrective Actions as noted in this report. Subsequent follow-up letters may be sent until all Corrective Actions have been satisfactorily implemented.

I would like to thank Commissioner Bill Robinson, Managers Tony Magliocchi, Michael Frieri and their staff for accommodating me and providing me with unrestricted access to all staff and information during the audit.

I have exercised independence, objectivity and due professional care in accordance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Audit Department is committed to adding value, providing continuous improvement recommendations and professional service to the whole organization.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Tupchong".

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

cc: W. Robinson C. Harris T. Magliocchi M. Frieri

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DEFINITION, OBJECTIVE AND SCOPE

1. **Definition:** Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. The **objective** of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed. The internal audit objective includes promoting effective control at reasonable cost. In the end, Internal Audit is focussed on continuous improvement of the organization.
3. The **scope** of Internal Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Internal Auditors have authority to review any phase of City activity. The scope of this audit may include one or more of the following:-
 - Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Appraising the economy and efficiency with which resources are employed.
 - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - Reviewing the identification of risk exposures and use of effective strategies to control them.
 - Reviewing specific operations at the request of the Audit Committee or City Manager, as appropriate.

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FOLLOW-UP ON CORRECTIVE ACTIONS

1. It is extremely important that all Corrective Actions as stated in this Internal Audit Report are implemented as soon as possible.
2. The Internal Audit Department will perform regular follow-ups, the first being 30 days after the issue date of the Internal Audit Report, followed by subsequent 30 days until all Corrective Actions have been satisfactorily implemented. Follow-up audits may be done to verify the reported implementation.
3. The Corrective Actions will ensure that the deficiencies as raised by the Auditor will be addressed. After all Corrective Actions have been implemented, there will be improvement in the effectiveness of risk management, control, and governance processes. The department will operate more efficiently and effectively. Members of the organization will also have discharged their responsibilities.
4. At the discretion of the Commissioner/Director, this report may be distributed to the appropriate staff members under their jurisdiction. Deficient items which could be common across the organization should be globally addressed. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.

INTENDED PURPOSE OF THE REPORT

This report is presented purely to add value and to improve the operation in terms of the scope of the audit for effectiveness, efficiency and continuous improvement. Areas reviewed were considered to be operating effectively, except where specifically noted as observations for which the auditor has made recommendations for improvement. The report is not intended to criticize/discredit any individual, or the management of the operation. The recommendations are suggestions of the auditor to achieve the objective of the audit.

End of Field Work: November 26, 2007

Auditor(s): Michael Tupchong.....**Signature:**.....

Approved:

INTERNAL AUDIT REPORT
DEVELOPMENT AND TRANSPORTATION ENGINEERING

Receipts not satisfactorily controlled

Observations

The auditor reviewed receipt numbers 141258-141300 (Jan5, 2007-April17, 2007) and receipt numbers 155401-154496 (Apr 24, 2007-October 25, 2007), totalling 139 receipts.

It was observed that:

1. Fourteen receipts (10%) were not satisfactorily completed as they did not have the "name" section entered. These were left blank. The sales amounts for these receipts varied from \$1.00 to \$100.00.
2. Ten receipts (7.2%) were out of sequence and were missing.
3. Four voided receipts had only the goldenrod copies available. The auditor was informed that the other 3 copies were sent to the Finance department.

Implications:

Control over receipts needs improvement.

Recommendations:

It is recommended that:

1. All receipts should be filled out in full by the Development and Transportation Department staff. The "name" section should not be left blank as this is incomplete paperwork.
2. No receipt should be missing. All receipts should be accounted for and missing receipts should be investigated. Receipts should be filed in numerical sequence in a binder.
3. For voided receipts, all copies should be intact and marked "voided" and should be sent to the Finance department which controls all receipts. A photocopy of the receipt should have a note on it stating that the voided receipt was sent to the Finance department, and should be filed in numerical order with the other receipts.

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Corrective Actions (Commissioner Bill Robinson Response)

1. Receipts will be issued by only the Clerk Typist, Administrative Assistant or Administrative Co-ordinator. This should alleviate issues of receipts not being filled out in full.
2. Filing system implemented so that only 5 receipts at a time are at the front counter (remaining receipts held by Administrative Co-ordinator) to try and provide greater control over the receipts being out of sequence. At the end of each month receipts are checked to ensure sequential order and then filled.
3. Clerk Typist and Administrative Assistant informed that the new policy is to return all three copies of the voided receipt to finance and a photocopied receipt will be retained so that it can be filled in sequential order.

Auditor's Response to Corrective Action:

.The corrective actions will address the auditor's concerns.

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Improved Control over Mileage Claims

Observations

The auditor reviewed 4 mileage claims of 4 employees and observed the following:-

1. Prior to August 2007, minimal spot checks of mileage claims on travel expense forms were done. On discussion with a clerk, mileage claims are now regularly checked as of August 2007. There are no "verification marks" on the travel expense forms to show this.
2. There is no cumulative total of mileage maintained for frequent travellers to determine if any employee exceeded the 5000 kilometre limit. The current policy is that employees are re-imbursed .50 cents/kilometre up to 5000 kilometres. Thereafter, they are re-imbursed .40cents/kilometre.

Implications

Controls over mileage threshold need to be monitored so that any claims over 5000 kilometres are paid at the lower rate.

Recommendations

It is recommended that:-

1. Each month, spot checks should be done to verify mileage claims. The verification check should be indicated on the expense form.
2. An Excel spreadsheet of mileage claims should be maintained for frequent travellers so that cumulative totals are monitored to ensure that the policy of reimbursement is practiced. The administrative co-ordinator has since prepared one.

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Corrective Action(s) (Commissioner Bill Robinson Response)

1. Spot checks of mileage claims on travel expense forms have always been and will continue to be reviewed by the immediate supervisor and the Director/Commissioner. Since August 2007 there have been more rigorous checks enforced within the department and there will be "verification marks" on the travel expense forms to show this.
2. Excel spreadsheet will be maintained by the Administrative Coordinator to track cumulative mileage totals for each employee.

Auditor's Response to Corrective Action(s)

The corrective actions will improve controls over mileage claims.

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Performance Measures not adequately maintained

Observations

1. It was observed that a number of performance indicators were not done on a timely basis. The seven key performance indicators were developed for measurement more than 1 year ago.
2. For the budget 2008, the following were done: cumulative year-to-date August 2007 performance measures for 4 key performance indicators and an annual projection for 3 key performance indicators.
3. A clerk maintains by employee (engineering technician/engineer), the following key performance indicators:-
 - a. Number of agreements processed per FTE
 - b. Engineering fees collected per annum.

The auditor reviewed the information provided and checked the information of 4 out of 7 employees and observed that the information on all 4 employees were not updated. Some projects which were shown as "in progress" and therefore had no engineering fees shown, were in fact completed and should have engineering fees recorded. The clerk agreed that the information needed to be updated.

Implications:

There are little up-to-date/accurate key performance indicators to assist in monitoring the performance of the department.

Recommendations:

It is recommended that:-

1. Accumulative year-to-date key performance indicators should be accurately done monthly, for the following developed measures:
 - a. Percentage of complaints resolved per fiscal year
 - b. Total hours and number of visits spent on site plan per FTE
 - c. Number of subdivisions inspected per annum
 - d. Number of agreements processed per FTE
 - e. Cumulative engineering fees collected per annum
 - f. Number of lot grading permits and public enquiries/FTE
 - g. Ongoing Engineering Related Studies/year

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2. The key performance measures should be reviewed frequently by management to monitor the performance of the department.

Corrective Actions: (Commissioner Bill Robinson Response)

1. All performance measurements are monitored throughout the year by management staff. Prior to the next year's Operational Budget submission all performance measurements are reviewed and revised to reflect status of the current year.
2. The spreadsheet that the Auditor was provided with is maintained for departmental review only and is not used for the performance measurement data. Management staff have created a new excel spreadsheet to show more up to date and accurate information and will be updated when subdivisions have been registered with the Region of York and all associated engineering fees have been paid in full. This new spreadsheet will depict the engineering fees collected by the City more accurately.
3. Due to the transfer of the Municipal Inspectors from the Engineering Services Department to the Development/Transportation Engineering Department better control related to
 - a. Percentage of complaints resolved per fiscal year
 - b. Total hours and number of visits spent on site plan per FTE
 - c. Number of subdivisions inspected per annumwill be maintained by the Development / Transportation Engineering department.

Auditor's Response to Corrective Action:

The corrective actions will improve on performance measurements.

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Taxes not charged on sales:

Observations:

The department sells the following items over the counter:-

- Plan and Profile Drawings
- Photocopies
- Road Cut Permit
- Design Criteria and Standard Drawings
- Site Grading Servicing Plans
- Transportation Study
- Bench Mark Book
- General Plans

It was observed that for a number of sales (96 out of 136 receipts (70%) reviewed), GST and PST were not charged by the department. Sales varied from .50 cents to \$714.00, with the majority of sales being under \$200.

Implications:

The department is not including sales tax on a majority of it's sales.

Recommendations:

It is recommended that :-

Sales tax (GST and PST) should be charged on all sales and should be shown on each receipt.

Corrective Actions (Commissioner Bill Robinson Response)

1. Receipts will be issued by only the Clerk Typist, Administrative Assistant or Administrative Co-ordinator. This should alleviate issues of receipts not being filled out in full including the sales tax portion of the receipts.

Auditor's Response to Corrective Actions:

The corrective actions will improve controls over receipts and the charging of sales tax.

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Cell phone Invoices require additional signatures

Observations

It was observed that the administrative co-ordinator approves (signs) all monthly cellular line invoices from Bell and Telus, for department employees who have cellphones, including the director. The employee and the employee's supervisor do not review and sign the monthly invoice.

Implications

Employees are not reviewing monthly charges for accuracy. Employees' supervisors are not reviewing and authorizing by way of signature, employees' charges.

The administrative co-ordinator signs monthly invoices without total knowledge of the accuracy of the charges.

Recommendations

It is recommended that :

Cell phone charges are an expense of the employee, similar to travel expenses. The invoice showing the calls made and related charges should be signed by the employee to verify its accuracy, and should be reviewed and signed by the employee's supervisor for approval.

Corrective Actions (Commissioner Bill Robinson Response)

1. Cell phone bills will be initialled by each employee and signed off by their immediate supervisor prior to the Administrative Coordinator reconciling them and sending them to Accounting for payment.

Auditor's Response to Corrective Actions:

The employee and supervisor will now verify and approve the charges.

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GST not recovered for seminar

Observations:

It was observed that one seminar was expensed to account 2004001.7130 (Seminars and workshops) for "CITE Toronto Conference for \$424, which included GST of \$24.00. Code ONO5 to separate out the GST and post it to the GST Recoverable account was not used by the Finance department.

Implications:

The expense account was overstated and the GST account was understated, resulting in the GST not being recovered.

Recommendations:

It is recommended that

A journal entry is required to rectify the error. Account 2004001.7130 should be credited by \$24.00 and the GST Recoverable account should be debited by \$24.00

Corrective Actions (Commissioner Bill Robinson Response)

1. Email to budget Coordinator will be sent to address this issue.

Auditor's Response to Corrective Actions:

The journal entry will rectify the error.

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Incomplete Paperwork

Observations

A Field Purchase Order was issued to CP Printing Inc for field inspection reports for \$479.00 before taxes. The following sections on the Field Purchase Order was not completed:-

- Authorization Signature
- Received By
- Dates
- Requisitioner
- Phone/Extension
- Tax PST
- GST
- Total

Another Field Purchase Order was issued to TAB for stationery for \$639.26. The following sections were not completed:

- Authorization Signature
- Received By
- Dates
- Tax PST
- GST
- Total

Implications

Paperwork is not always filled out satisfactorily resulting in improper approval and audit trail.

Recommendations

It is recommended that Field Purchase Orders should be filled out appropriately, especially in the "Authorization Signature", "Received By" and "Date" sections, to confirm that the purchase was authorized and received, and when.

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Corrective Actions (Commissioner Bill Robinson Response)

1. Field Purchase Orders will be completely filled out to confirm that the purchase was authorized and received.
2. Attached to each FPO is a copy of the invoice with the date and authorizing signature as well as the appropriate account for the charge.

Auditor's Response to Corrective Actions:

The corrective actions will ensure that the goods were received and that the paperwork were adequately filled out.

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Refreshments for meetings - need approval signature

Observations

1. The department purchases from the cafeteria and receives an invoice. The administrative co-ordinator enters the account code for the Finance department to charge the amounts to.
2. The invoices are not signed and dated by the administrative co-ordinator to indicate that the charges are correct and that the goods were received.

Implications

Controls over invoice approvals need improvement.

Recommendations

All invoices forwarded for processing and payment, should be signed and dated to indicate that the invoices were reviewed, are correct and that the goods were received.

Corrective Actions (Commissioner Bill Robinson Response)

1. Invoices are attached to a FPO request which will be signed off and dated and reference the Invoice(s) received from the cafeteria.

Auditor's Response to Corrective Actions:

Controls over invoice approvals will be improved.

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Training invoices not signed by supervisor

Observations

When an invoice arrives for the training session/seminar of an employee, the administrative co-ordinator attaches a Cheque Requisition/Accounts Payable Voucher to it. The administrative co-ordinator signs the invoice as approval for payment. The employee's supervisor does not sign the Voucher authorizing the expense.

Implications

The administrative clerk and not the supervisor, is approving for payment, the training expense of the employee.

Recommendations

Training and development is an employee expense similar to travel expense. Therefore, the employee should sign the invoice as evidence of its accuracy and the employees' supervisor should also sign the invoice, to authorize the expense for payment.

Corrective Actions (Commissioner Bill Robinson Response)

1. Employees are to sign up for courses only after they have received authorization from their immediate supervisor. This is usually via email or verbally. The employee will sign up for the training and have the invoice sent to their attention once this has been received they will pass this to the Administrative Coordinator to process for payment. Supervisors will now initial all training invoices for approval.

Auditor's Response to Corrective Actions:

The employee and supervisor will sign the invoice to verify its accuracy and approval.

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Items Returned, credit not received

Observations

1. On a review of expenses for stationery, it was observed that on one invoice, 2 line items were returned back to the supplier. The invoice was paid in full. The supplier credited the City for one return and not the other. The department was unaware that there was only credit for one return and not the other.
2. The department does not keep photocopies of vendor invoices and so does not keep track of returned items. As a result, the City did not receive credit for a line item that was returned. The dollar value was immaterial in this case, but it could have been a large dollar amount.

Implications

Returns are not followed up by the department to ensure that the required credits are received from the vendor for all returned items.

Recommendations

For all returned items, the department should keep a photocopy of the invoice showing the items that were returned. Subsequent invoices should be checked to ensure that the vendor processed the credits to the City. If not, then follow-up work should be done by the department with the vendor. This process should be done for all returns, not just stationery.

Corrective Actions (Commissioner Bill Robinson Response)

1. Invoices are not received by the department for larger corporate accounts like Basics. These invoices are sent directly to Accounting.
2. When an item is being returned the Administrative Coordinator will circle the item and reference the credit # provided by the company.

Auditor's Response to Corrective Actions:

The corrective actions will improve controls over returned items.

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Safety Footwear, not “green patch standard”

Observations

1. The Union contract with the Clerical and Technical Canadian Union of Public Employees (Local 905), states that employees will be re-imbursed for “appropriately rated footwear (green patch standard)” up to \$160 every two years. The amount for the most recent contract is now \$175.00
2. It was observed that one employee purchased two footwear- one was green patch standard with the CSA approval and the second pair was described by the store as a “hunting/rubber boot with liner” which was not “green patch standard” and was not CSA approved. Both boots totalled \$142.48 after tax. The employee was re-imbursed the full amount. This error was missed by the supervisor, the administrative co-ordinator and the budget co-ordinator who relied on the department supervisor.

Implications

The employee submitted a receipt for safety footwear which was not “green patch standard” and was re-imbursed by the City in error.

Recommendations

It is recommended that:

1. Re-imburement should only be done for “green patch standard” safety footwear as per the contract. The department staff should review the presented receipt showing the description of the purchase, more closely, before any re-imburement is approved.
2. The department should collect the cost of the second boot which was not “green patch standard” from the employee for \$51.29 which includes the taxes (GST and PST).
3. A letter should be sent out by the Human Resources department to all departments to emphasize that re-imburement up to \$175 will be for “green patch standard” safety footwear only and that supervisors should ensure this is so before approving the re-imburement.

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Corrective Actions (Commissioner Bill Robinson Response)

1. Re-imbusement will only be done for "green patch standard" safety footwear as per the contract. Management will review the presented receipt showing the description of the purchase prior to any re-imbusement is approved.
2. The department will collect the cost of the second boot which was not "green patch standard" from the employee for \$51.29 which includes the taxes (GST and PST).

Auditor's Response to Corrective Actions:

The corrective actions will rectify the error and address future re-imburements for "green patch standard" safety footwear only.

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Consultant work “received” in the system before invoice arrival

Observations

1. A Purchase Order was issued on 19 February, 2007 for \$11,600 (estimated professional fees) to a consultant M. The administrative co-ordinator “received” the service in PeopleSoft when the consulting work was completed. This resulted in the \$11,600 being charged to the department’s budget on 29 May, 2007 even though the invoice had not been received from the consultant. This is called “received, not vouchered”.
2. The invoice was received after 21 June 2007 and was for \$9,748.53 and not the \$11,600 which was recorded. The auditor brought this observation to the attention of the administrative clerk for corrective action.

Implications

When a “receipt” is done in PeopleSoft without the actual invoice being received, then the PO amount will be charged to the department’s budget, even if the actual invoice amount is less than the PO amount.

Recommendations

For any service with an estimated cost, no “receiving” should be done in PeopleSoft until the actual invoice has been received from the consultant. If the invoice amount is different to the PO amount, then the Purchasing department should be notified to cancel the original PO and to issue a new PO for the actual amount. Once this is done, the clerk can then “receive” in PeopleSoft, and the correct amount will be charged to the department’s budget.

Corrective Actions (Commissioner Bill Robinson Response)

Care will be taken in the future by the immediate supervisor when approving a PO in PeopleSoft to ensure that once the PO is approved by all management levels the administrative coordinator who entered and initiated the new PO in the system does not “receive” the PO until a final or interim invoice is actually received from the consultant.

Auditor’s Response to Corrective Actions:

The new process will address similar problems in the future.

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CONCLUSION

1. Based on the scope of audit work mentioned in the beginning of the audit report, areas reviewed were considered to be operating effectively, except for the noted observations for which the auditor made recommendations for improvement.
2. The commissioner and director of the department/operation audited, have responded favourably to all observations and recommendations in the Internal Audit Report.
3. When all corrective actions are implemented, (1) internal controls will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the department/operation will operate more effectively and efficiently and (4) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.