

AUDIT COMMITTEE- JUNE, 20, 2006

INTERNAL AUDIT REPORT ON WINTER CONTROL (PUBLIC WORKS DEPARTMENT)

Recommendation

The City Auditor recommends:

That the Internal Audit Report On Winter Control, completed in June 2005, be received.

Economic Impact

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.

The value added by Internal Audit has economic impact, some of which is measurable while others are not. Internal Audit has a positive impact on all areas of City activity which are audited.

Purpose

To present to the Audit Committee the Internal Audit Report on Winter Control (Public Works Department).

Background - Analysis and Options

The audit was part of the Internal Audit Plan for 2005.

The internal audit report is provided as Attachment 1 and Attachment 2 (Strictly Confidential). The report explains the definition and objective of auditing as well as the scope of audit work. The report includes the observations of the auditor, the implications, the auditor's recommendations, the commissioner's responses for corrective actions and the auditor's response to the corrective actions.

Relationship to Vaughan Vision 2007

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

Conclusion

1. The commissioner and director of the department/operation audited, have responded favourably to all findings and recommendations in the Internal Audit Report.
2. When all corrective actions have been implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department will operate more effectively and efficiently and 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

Attachment 1 – Internal Audit Report on Winter Control

Attachment 2 – Internal Audit Report on Winter Control (Strictly Confidential).

Report prepared by:

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

Respectfully submitted,

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

Attachment 1

June 23, 2005

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

Dear Michael DeAngelis,

Re: Internal Audit of Winter Control

I have completed the audit of Winter Control (Public Works Department) as of June 5, 2005. This audit was conducted in accordance with the 2005 Audit plan. The period covered by the audit was from January 1, 2004 to March 31, 2005.

A follow-up letter will be sent to the auditee, 30 days from the date of this audit report, requesting the status of corrective actions on deficiency items noted in this Audit report. Subsequent follow-up letters may be sent until all corrective actions have been satisfactorily implemented.

I would like to thank the Commissioner Bill Robinson, Director Brian Anthony, and their staff for accommodating me and providing me with unrestricted access to all staff and information during my audit.

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

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

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

cc: B. Anthony C. Harris B. Robinson A. Siracusa

INTERNAL AUDIT REPORT
WINTER CONTROL

Attachment1

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DEFINITION, OBJECTIVE AND SCOPE

1. 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 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 are concerned with any phase of City activity. The scope of Internal Auditing includes:
 - 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.

DEFICIENCY RATING

1. To assist readers in the interpretation of Internal Audit's opinion of the gravity of the reported deficiencies, we have categorized our findings into 5 groups:-

High (5*); Medium High (4*); Medium(3*); Medium Low(2*); Low(1*).

2. In **summary**, there are 0 (5*), 3 (4*), 0 (3*), 0 (2*), 0 (1*) reported in this Internal Audit Report.
3. At the discretion of the commissioner and director(s), 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.

End of Field Work: June 5, 2005

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

Approved:

Charging Capital costs to Operating Budget (4*)

Observations:

1. It was observed that a total of approximately \$109,262 was charged to the operating Snow Clearing account 2310158.7331 instead of the capital account for Salt Domes 2002 Job# 1488-0-02. The reason was that there was insufficient funds in the capital budget for this project.
2. The \$109,262 was made up of \$76,582 from Langley Utilities, \$11,300 from Vaughan Hydro, \$21,380 from Gazzola Paving.
3. The City practice allows for capital expenditure over budget, of the lesser of \$10,000 or 10% of the capital budget, as per the Manager of Capital Budgets. Expenses over this require the approval of Council. In this instance, this was not done.

Implications

1. The actual cost for the operating account (snow clearing) is overstated and the capital account for the Salt Domes project is understated by \$109,262.
2. City practice of getting Council approval for capital expenditures exceeding the lesser of \$10,000 or 10% of the budget, was not followed.

Recommendations

It is recommended that:

1. Capital expenses should not be charged to operating expenses and vice versa. This jeopardizes the integrity of financial information in the capital and operating accounts.
2. Practice should be followed regarding over expenditure on capital projects. Council approval should be obtained for capital expenditures exceeding the lesser of \$10,000 or 10% of the capital budget. Once approval has been obtained, expenses should be charged to the capital account to show the true cost of the project and the negative variance from budget.

Corrective Action (Commissioner Bill Robinson's Response)

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A total of \$790K was budgeted to purchase and construct salt domes at the Woodbridge yard, and at the new Dufferin Street lands. The Woodbridge salt dome was constructed in late 2001 at an existing works yard that was already serviced, had electricity, and required relatively minor site preparation. Prior to the construction of the salt dome at the Dufferin Works Yard, the property was used as a commercial farming operation and required significant site work. Soil conditions resulted in significant delays and additional costs to this project. Works had to be carried over into 2004; however, there were no adjustments made to the capital budget in 2004 to allow for the additional work done or increases in material costs due to these delays.

When the dome was approaching completion, late 2004, the driveway entrance to the dome was not paved, and there was no still electrical power supply to the dome. As insufficient funds were available in the capital budget to complete this work, these costs were charged against winter operations in order to have the dome in operation for the 2004-2005 winter season. Funds are now available in the 2005 Capital Budget, and the costs of servicing this site can now be appropriately transferred against the capital budget. Staff will ensure that the use of Operating Budget funds to complete Capital Works projects is not repeated in the future.

Auditor's Response to Corrective Action:

Audit recommendations will be implemented.

Windrow operations (4*)

Observations:

It was observed that:

1. Windrow snow clearing was awarded to two contractors. Part A (East of Weston road) was awarded to D. Crupi and Sons and Part B (West of Weston road) was awarded to Windrow Enterprises Inc. The contract expired on March 31, 2005.
2. The windrow snow removal costs the City approximately \$1 million for 2004. As more communities are built, this cost will increase. This is an operating annual cost to the City and could be reduced at the decision of Council in order to save costs.
3. In the Greater Toronto Area, most municipalities do not provide windrow snow removal to all homes. The City of Vaughan is providing this premium service to its residents.
4. During the winter, numerous complaints are received from homeowners, complaining of damage to driveways, gates, pillars and so on, blaming the damages to the windrow operations. A total of 212 complaints were received for the 2004 calendar year. This creates a lot of administration and investigative work for the winter control team.

Implications:

1. The benefit of providing windrow snow clearing is an increasing cost to the City as communities increase.
2. Removing this benefit could save the City at least \$1million annually, if Council decide.

Recommendations:

It is recommended that:

1. There is an option to save in excess of \$1 million if Council decide not to provide “Cadillac” services to Vaughan citizens and decide to provide the same services as most other municipalities within the Greater Toronto Area by eliminating windrow operations or reducing it to provide services only to seniors.
2. The \$1 million plus savings from windrow, could help reduce the City’s deficit and reduce tax increases.

Corrective Actions (Commissioner Bill Robinson’s Response)

The elimination of the windrow clearing service has been the subject of previous staff reports and has been recommended by staff. To date, Council has not wished to eliminate the service.

The windrow clearing contract has expired and staff will be going out to tender over the summer months for this service. A report on the tender results will be presented to Committee of the Whole for consideration. At that time, Council will have the opportunity to consider the continuation of this service.

Prior to the current windrow ploughing service, the City did provide windrow clearing to seniors according to a criteria and an application process. This service required significant staff time to administer and was subject to abuse. We would not recommend a return to this service.

Auditor’s Response to Corrective Action:

The auditor has given an independent, objective opinion as to the alternatives available to Council. The decision is theirs to call.

“2%-15 day” clause and “Right to Audit” clause (4*)

Observations:

1. On a review of contracts with contractors, it was observed that there was no clause for the “2% - 15 day” discount payment terms and the “Right to Audit” clause.
2. This observation extends to all other purchases/contracts the City enters into for all departments.

Implications:

1. The “2% - 15 day” clause would allow the City the opportunity to save reasonable sums of money should they pay within 15 days from the date the invoice is received to the date of the cheque.
2. The “Right to Audit” clause would provide the City the opportunity to audit the suppliers’ books should the need arise. This clause provides additional rights and protection for the City of Vaughan.

Recommendation:

It is recommended that:

1. The clause “2%-15 day” or net 45 days, should be printed on all future purchase orders and on all City contracts/tenders/request for proposals across all departments.. This would allow the City to take advantage of 2% discount if the invoice is paid within 15 days from the date the invoice is received in Accounts Payable to the date of the cheque.
2. The City should quicken the payment process to take advantage of this clause. All City departments should approve invoices as quickly as possible (providing they are satisfied that all goods and services have been satisfactorily received) This could provide reasonable savings for the City.
3. To facilitate the process, consideration should be given to paying vendors by electronic pay and reducing/eliminating printing and distribution of cheques.
4. The “Right to Audit” clause should also be printed on all purchase orders and on all City contracts/ tenders /request for proposals for all departments. This clause would give the City additional rights and protection to review contractor’s

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financial information relating to contracts with the City, in case of disputes and disagreements with them.

Corrective Actions (Commissioner Bill Robinson's Response)

The 2% - 15 day discount and the right to audit clauses would be of benefit. These clauses should not be limited to winter operations and could be applied across all departments. The City's processes for receipt review, authorization and payment of invoices would have to be modified so that payments could be expedited and advantage taken of the discount.

The auditor is currently working with the Director of Legal and the Director of Purchasing on the pros and cons and the logistics of having the clause included on all purchase orders, tenders and request for proposals(RFP's) used by all City departments..

Auditor's Response to Corrective Action:

Audit is currently working with certain parties to determine the logistics of the implementation of the recommendations.

Conclusion

1. The commissioner and director(s) have responded favourably to all findings and recommendations in the Internal Audit Report.
2. When all corrective actions/recommendations are implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department will operate more effectively and efficiently and Internal Audit will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.