

AUDIT AND OPERATIONAL REVIEW COMMITTEE - NOVEMBER 25, 2009

INTERNAL AUDIT REPORT OF BUILDING AND FACILITIES DEPARTMENT

Recommendation

The City Auditor recommends:

That the Internal Audit Report of Building and Facilities department 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

The audit report will be posted on the web by the Corporate Communications department.

Purpose

To present to the Audit and Operational Review Committee, the Internal Audit Report of Building and Facilities department.

Background - Analysis and Options

The audit was part of the 3 year risk-based Internal Audit Work Plan which was approved by the Audit and Operational Review Committee.

A special request was also made by the City Manager to do this audit with a Terms of Reference as follows:

TERMS OF REFERENCE

To review for 2008 (with some review back to 2004), expenses and revenue of each cost centre with supporting documentation to verify whether:

- 1) adequate supporting documentation are available to support the expense/revenue
- 2) proper signed approvals were obtained to purchase the services/goods
- 3) services/goods were received and signed for on the Packing slips, Invoices or Field Purchase Orders/Purchase Orders
- 4) the Invoices were reviewed and signed to verify their correctness and approval to pay
- 5) there were correct allocation of the expenses to the appropriate accounts
- 6) Purchasing policy was followed in terms of the Field Purchase Order or Purchase Order limits
- 7) the Purchase Order was circumvented by using multiple FPO's
- 8) total purchases exceeded \$100,000 for the year whereby Bid documents should have been issued, and if so, to verify that the contracts were adhered to.

- 9) (1) to (8) above is also adhered to for SLF General Contracting Inc. and Vitriflex Surfaces Inc in comparison to other contractors and to note if there are any noticeable differences in treatment.
- 10) Internal Control, Corporate Governance and Risk Management can be improved and to make recommendations
- 11) department resources are used effectively and efficiently and whether department processes can be improved for greater efficiency and effectiveness
- 12) department assets are protected and safeguarded from loss

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. The Executive Summary in the report highlights the findings of the audit.
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 Building and Facilities Department

Report prepared by

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

Respectfully submitted,

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

November 11, 2009

Clayton Harris
City Manager
City Of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
Canada L6A 1T1

Dear Clayton Harris,

Re: Internal Audit of Building and Facilities Department

I have completed the internal audit of Building and Facilities Department. This audit was already scheduled as part of the three year audit work plan. In addition, as requested, the scope of the audit was expanded and it also included specific review of the years 2004 to 2008. The additional Terms of Reference is included in the report to reflect this change.

A follow-up letter will be sent to the auditee, 60 days from the issue date of this Internal Audit Report, requesting the status of Corrective Actions and Timeline, as noted in this report. Subsequent follow-up letters may be sent until all Corrective Actions and Timeline have been satisfactorily implemented.

I would like to thank Commissioner Marlon Kallideen, Director Jeff Peyton 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 with integrity and credibility.

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

cc: M. Kallideen J.Peyton J.Atwood-Petkovski

INTERNAL AUDIT REPORT
BUILDING AND FACILITIES DEPARTMENT

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Executive Summary

- 1) The current policy and procedures for Field Purchas Order (FPO) states that a FPO is to be used for:
 - a) Low value maintenance, repairs and operational supplies up to a limit of \$3000 excluding all taxes.
 - b) Low value purchases where expense tracking is not required to be tracked for accounting purpose through PeopleSoft. (J.D.Edwards).
 - c) It also states that when confirming orders using FPO's indicate to the supplier that the Field Purchase Order numbers begin with the letters "FPO". This is the only information and/or instructions provided to the user Department regarding the use of FPO's. My review indicated that all FPO's issued by the various staff were within the \$3000 limit, and was signed by the appropriate Supervisor, Manager and/or Director.

- 2) From a risk perspective, the following observations were made:

In a number of instances, Field Purchase Orders (FPOs) and Purchase Orders (POs) are made out (1) after the services/goods have been received and (2) after invoices have been received. The FPO/PO number is often given to the contractor at the time of the order. The Authorization is signed after the services/goods have been received and verified. It was noted that in some instances the POs were issued for emergency repairs and the information was available in the Purchasing Services Department for inputting into JD Edwards. The procedures for completing and using a FPO should be revised to clearly indicate that the FPO should be authorized and prepared before the work/services are ordered where possible.

- 3) In a few instances, some FPOs could have been replaced with a PO as the total amount of the FPOs exceeded the \$3000 limit. This was applicable to a few contractors and not isolated to one contractor.
- 4) For some contractors where the cumulative amount spent for the year was in excess of \$100,000, the department in consultation with Purchasing Services, should have issued bids to establish a Vendor(s) of Record. However, there is currently no requirement in the existing policy for FPO limits, and *no system or process in place* to easily identify when the \$100,000 cumulative spending totals have been reached.
- 5) During the audit period, it was identified that for some contractors, they are on the Vendor of Record list established by the Purchasing Services Department (as a result of issued bids) which usually has a term of 3 years; for other contractors where the Department expects to exceed the \$100,000 limit, a bid should be issued, and the successful contractor(s) should be added to the Vendor of Record.
- 6) The cafeteria has lost money annually. The net losses were approximately \$19,000(2004), \$12,000(2005), \$19,000(2006), \$19,000(2007). For 2008 the loss was approximately \$43,000. PowerStream moved out of the building at the beginning of 2008. This greatly impacted revenues.
- 7) A Disposal Company Weigh Tickets are not regularly checked to department's own records for date of pick up to validate that the weigh ticket date matches the pick up date for the 20 and 40 yard bins. Weigh Tickets are not cross-referenced against call dates and invoicing numbers.

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- 8) While the Department uses other procedures and methods to validate the correctness of invoices, a number of invoices are not signed to indicate that the invoices have been reviewed, are correct and that approval has been given to process payment. The department does acknowledge receipt of goods/services through the Purchasing system for corresponding Purchase Orders, (J.D. Edwards) and other departmental approval form including the Field Purchase Orders which is signed for authorization and receipt. It is also recommended, that in addition to the current systems and processes, that the invoices also be signed.
- 9) There were some incorrect posting errors to General maintenance, Materials and Supplies and Janitorial Supplies accounts. It was recommended to open miscellaneous expense accounts for these expenses.
- 10) PST was incorrectly charged to the department. This was evident for 2005 to current date, and it is to be established if it goes before this. PST on labour to real property should be exempt. The department will recoup the PST overcharged. The overcharge is approximately \$7,000 for purchases between January 1, 2005 to June 5, 2009.
- 11) The audit did not uncover any evidence to suggest that any preferential treatment was given to SLF General Contracting or Vitriflex Surfaces Inc. The department tried several products and processes and it was determined that these contractors provided a cleaner and better sanitized finished product. The auditor did observe the condition before and after the application/process and noticed a definite improvement. They were treated in the same manner as other contractors used by the City.

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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 includes but is not limited to 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 AND TIMELINE

1. It is important that all Corrective Actions and Timeline 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 and Timeline have been satisfactorily implemented. Follow-up audits may be done to verify the reported implementation of corrective actions.
3. The Corrective Actions and Timeline will help to ensure that the deficiencies raised by the Auditor are 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 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); 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 of the auditors are intended to correct deficiencies identified during the audit to improve Risk management, improve control and corporate governance.

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

Approved:

INTERNAL AUDIT REPORT
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TERMS OF REFERENCE

To review for 2008 with specific review back to 2004 (regarding steps 7, 8 and 9), the expenses and revenue of each cost centre with supporting documentation, to perform the following:

- 1) Validate that adequate supporting documentation are available to support the expenses and revenue.
- 2) Validate that proper signed approvals were obtained to purchase the services/goods.
- 3) Validate that services/goods were received and signed for on either the Packing slips, Invoices or Field Purchase Orders/Purchase Orders.
- 4) Review the process in place to verify the correctness of invoices and the appropriate approval to pay.
- 5) Validate that expenses were correctly allocated to the appropriate accounts.
- 6) Validate that the Purchasing policy for FPO were followed in terms of the Field Purchase Order limits.
- 7) Validate that the Purchase Order was NOT circumvented by using multiple FPO's.
- 8) Identify instances where total purchases exceeded \$100,000 for the year whereby formal Bid documents should have been more appropriately issued, and if so, to verify that the contracts were adhered to.
- 9) Verify that steps (1) to (8) above were also adhered to for SLF General Contracting and Vitriflex Surfaces Inc. in comparison to other contractors and to note if there are any differences and/or preferred treatment for SLF General Contracting and Vitriflex Surfaces Inc.
- 10) Review departmental Internal Control, Corporate Governance and Risk Management and identify deficiencies and make recommendations for improvement.
- 11) Review department resources to determine if they are being used effectively and efficiently and identify whether department processes can be improved for greater efficiency and effectiveness.
- 12) Determine if department assets are protected and safeguarded from loss.

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Observations

Field Purchase Orders/Purchase Orders issued after Invoices Received

Observations

1. It was observed that in the following cases, the department makes out the Field Purchase Order (FPO)/Purchase Order (PO) after the invoice is received. The following examples were identified:
2. The department purchased utensils, cutlery and china from a vendor for \$1593.03. The invoice T78372 was dated *February 7, 2008*. The FPO was made out, authorized and received on *March 13, 2008*. Although the FPO was properly authorized by the supervisor, the invoice should also be signed (and dated) to verify that the charges were correct.
3. Ten 36" square tables were purchased from a vendor for \$2556.40. The invoice was dated *July 3, 2008*. The FPO was correctly authorized on *July 10, 2008* by the supervisor. However, the invoice should also be signed (and dated) to verify that the charges were correct.
4. A refrigeration company was asked to do quarterly service agreements at all community centres on Feb 21, 2008. The Purchase Acquisition form was completed on February 25, 2008 and the PO was produced on *May 7, 2008* after the invoice dated *May 1, 2008* was received for the 1st quarter. The cost per quarter was \$92,631 for 5 community centres. This is a four year service contract and should have been automatically renewed at the start of the second year.
5. An FPO showed that the acid washing of the pool deck was done on April 24, 2008 at a cost of \$2,226.00. The invoice received was dated *April 25, 2008* and was misplaced. A duplicate invoice was requested and processed. The authorization of the FPO was dated *July 15, 2008* which was almost 3 months after the work was done.
6. A roofing contractor did emergency caulking and sealant work on a roof of a community centre at a cost of \$7,333.20 on *May 14 and 16, 2008*. The Purchase acquisition form was completed on *May 28th* and a PO was issued on *August 20, 2008*, 3 months later.
7. A contractor performed safety repairs to the deck and stair tread work in the pool area of a community centre for \$4,305.00 on *Feb 25, 2008*. The Purchase acquisition form was completed on *March 04, 2008* and the PO was issued on *March 19, 2008*.
8. The Procurement process is established to obtain the cost of the service/work to be done. Once the price is received and if the price is acceptable, an FPO or a PO is issued to the vendor to show the department's commitment to have the work/service done at the agreed cost. The FPO/PO should be authorized before being given to the Vendor. The vendor then performs the work/service after the FPO/PO has been issued to them. The auditor is aware that in many instances, the FPO/PO number may be given over the phone or by e-mail, for the sake of expediency and in the case of Emergencies, and this is accepted by the vendor to proceed with the order even though the physical copy of the FPO/PO may not have been received. The work is performed while the paperwork is sent to the purchasing department.

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Implications

1. By completing the FPO/PO after the work/service has been done, when the Invoice has been received or after the contract has been signed, is a paper compliance exercise, and the process of the FPO/PO is not adhered to in a timely manner. It is also noted that in the case of emergencies or certain circumstances, this is not always possible.
2. By having a mutual commitment to an agreed price up front and issuing a FPO/PO before ordering the products/services, the department will ensure it is getting the most competitive price for the product or service. In the case of emergency work or certain circumstances this may not always be possible.

Recommendations

It is recommended that:

1. The Field Purchase Order/Purchase Acquisition Form should be completed, dated and authorized BEFORE the product/service is ordered. This will ensure that the process is followed as intended. The FPO/PO is a contract between the buyer and the vendor at the agreed price for the agreed quantity and description of product/service. The FPO procedures should also be revised to reflect more detail instructions to the users.
2. Although the FPOs, POs or departments payment forms are properly signed, including the approvals in the JDE financial system, the invoice should also be signed (and dated) to verify that the charges are correct as to quantity, description and price on the invoice before authorization is given for payment.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department will implement the suggested new process of signing all invoices in addition the other authorization process currently in place. However it should be noted that a number of invoices are sent directly to accounts payable. The department will make every effort to ensure that all FPO are signed before the product is ordered, however, emergency situations do occur whereby the acquisition information will be delayed for generating a PO. In these situations, staff will ensure that the paperwork is forwarded in a timely fashion to the purchasing department
2. The Department will implement the suggested new process of signing all invoices in addition to the signing of the FPO and authorizing the PO, and entering the information in the JDE system for payment. The Department will also work with purchasing to revise the current procedures regarding the FPO process. The Department will also consult with accounts payable regarding the payment process.

Auditor's Response to Corrective Actions and Timeline

The recommendations will be implemented. The signing of invoices will improve controls over charges to the City.

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General maintenance invoices not signed

Observation:

The auditor has observed the following practice and has provided the examples to illustrate:-

1. A construction company was hired to do emergency repair to public walkway as it was identified as a safety issue. The quotation was received on May 1, 2008, the purchase acquisition form was completed on May 08, 2008 and the Purchase Order (PO) issued, was for \$20,973.75. The invoice was received on May 19, 2008 and processed. There was no signature on the invoice to verify that the work was satisfactorily done as the invoice was not signed. The payment was processed. The work was "received" through the Purchasing/Financial accounting system. (J.D. Edwards) and the PO was signed and authorized.
2. A contracting company did renovation work for \$15,382.50. The quotation was received, the Purchase acquisition form completed and a PO was issued. The invoice was not signed to verify that the work was satisfactorily completed, the charges are correct and to authorize payment. The work was "received" through the purchasing/Financial accounting system. (J.D. Edwards) and the PO was signed and authorized.
3. A contractor did emergency repairs to a camp location by waterproofing the basement of the historical house. Purchasing was contacted and a bid was issued for emergency repairs. The bid was received and the job was awarded to be completed ASAP. The Purchase Acquisition form was completed on May 21, 2008 (1 day after the due date) and The PO was produced on June 3, 2008. Purchasing Department was aware of this job and was awaiting the purchase acquisition form in order for the department to generate the Purchase Order. Since this was an insurance claim, staff needed approval and an account number to complete the purchase acquisition form. The account was received on May 20, 2008 and the purchase acquisition form was completed and submitted to Purchasing Services Department on May 21 to generate the Purchase Order. The invoice for \$42,042 was received and processed, but it was not signed to verify the work was satisfactorily completed. The work was "received" through the purchasing system. (J.D. Edwards) and the PO was signed and authorized.
4. There is currently no policy or procedures in place that states "the invoice should also be signed and dated". There are other processes in place, such as the J.D Edwards system, the actual PO and FPO, and in some instances the invoices are signed as well to verify the charges.

Implication:

For maintenance work, there is usually no Packing slip. There is no added control in place to verify the service was rendered and that the charges are correct on the invoice and have been approved for payment.

Recommendation:

It is recommended that:

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For added and effective control, all invoices should be signed (and dated) to indicate that the work was completed, the charges on the invoice are correct and have been approved for payment in addition to the other processes currently in place.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department will instruct staff to implement this new process whereby the invoices will also be signed. There are currently other process in place to verify the charges including the PO, the FPO and the information on the JDE system. Staff will request that Accounts Payable send the invoices to the Department for a signature. This may possibly delay payments and the Department will discuss this point with the Finance staff.

Auditor's Response to Corrective Actions and Timeline:

The recommendation will be implemented. The signing of invoices will improve controls over charges to the City.

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After Hours Work

Observations

1. The department hires one contractor to do emergency work (after hours) to clean fitness change rooms, washrooms, pool decks, tiles and showers through acid washing or power washing. Work is usually done at night when the change rooms are not in use. Costs charged by the contractor varied from \$1827 to \$2919 per job as stated on the invoices.
2. It was observed that the Field Purchase Order (FPO) is frequently "received" and "authorized" after the invoice date which is when the work/service has been done, largely due to shift changes of staff and workload. The following were observed during the detailed review:

<u>Invoice Date</u>	<u>"Received"</u>	<u>Authorized</u>	<u>Invoice Amount</u>	<u>Location</u>
March 28, 08	March 28, 08	May 5, 08	2457.00	APCC
March 14, 08	March 14, 08	May 5, 08	2478.00	APCC
April 7, 08	April 7, 08	May 29, 08	2341.50	APCC
May 6, 08	May 6, 08	May 29, 08	2446.50	APCC
January 10, 08	January 10, 08	February 14, 08	2604.00	DCCC
April 24, 08	May 6, 08	May 29, 08	2488.50	APCC
Feb 11, 08	Apr 11, 08	Apr 11, 08	1827.00	FEBCC
Mar 20, 08	May 6, 08	May 6, 08	2499.00	FEBCC
Aug 13, 08	Sep 10, 08	Sep 11, 08	2029.50	VVCC
Apr 24, 08	May 6, 08	May 29, 08	2488.50	APCC
Mar 24, 08	Jun 19, 08	Jun 19, 08	2084.25	APCC
Jul 9, 08	Jul 9, 08	Sep 30, 08	2919.00	WPMA

3. The invoices do not show a GST number even though 5% GST is charged. The GST number is registered in the Purchasing Services Department and is also included in the Vendor's information recorded in the JD Edwards system.
4. Invoices for FPOs are rarely signed (and dated) as the signatures on the FPO's document are currently accepted as the authorization for correct charges and payment.
5. Invoices do not show start and end times for the job and the number of employees who worked on the job. The price charged for the work is always one total figure on each invoice with a separate GST amount.
6. The department paid in excess of \$140,000 cumulatively to this contractor for each of 2006, 2007 and 2008. There was no Bid/RFP issued for indoor surfaces until May 2009. There was a bid issued in 2008 for outdoor surfaces.
7. In a number of instances for water play areas, before the work is ordered by the department, this contractor visited the site with staff and produced a Site Inspection Report giving a description of the condition of the rubber surface in the water play area and what work was required to rectify the deficiency. The quote cost of the job would not be given as it was a time and material charge. The prices on each invoice would vary depending on the work and time required.

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Implications

1. While the unit rate is available, without the total hours, the final cost/amount on the invoices cannot be checked for accuracy based on the per hour cost quoted. The work/FPO was signed off as being received by a number of different staff indicating that the work was satisfactorily completed and the cost was accurate.
2. The authorization of the FPOs is signed after the services have been received.
3. Invoices are rarely signed that they have been checked for accuracy, that the services have been satisfactorily received and the invoice is approved for payment. The signature on the FPO serves as the authorization.(this is the current approved process for all departments)
4. The GST number is not shown on the invoices however it is registered in the City financial accounting system. (J.D. Edwards) and with the Purchasing Department.
5. Large cumulative expenses are incurred with the contractor using the approved FPO process. Without the issuance of a formal bid document to create a Vendor of Record, it could be perceived that the City was not receiving the best price and is showing favouritism. The work are performed at several buildings and ordered by different staff.

Recommendations

It is recommended that contractor invoices should show more information, including the following:

- 1) Start and end times of the job or total hours.
- 2) Number of employees doing the job.
- 3) GST number of the contractor should always appear on the invoice.
- 4) The contractor should provide more detailed cost of the job for those water play areas where a pre-site inspection report is provided.

The following procedures should also be implemented:

- 1) The invoice should be signed (and dated) by the supervisor to indicate that the charges are correct and that authority is given to pay the invoice.
- 2) The FPO should be authorized (signed) before the work is ordered.
- 3) Purchasing Services department should revise the current procedures and guidelines for completing an FPO.
- 4) Bid documents should be issued for 2009 to create Vendors of Records for contractors utilized for cumulative totals over \$100K, so as to obtain the most competitive price and avoid any perception of favouritism.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department will work with Purchasing Services on ensuring that detail instructions on invoicing requirements are provided to the vendors.

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2. The Department has already identified bids for services back into 2008, and is continuing to work with Purchasing Services in issuing bid documents to add contractors to Vendors of Record list.

Auditor's Response to Corrective Actions and Timeline:

The recommendations will be implemented. The additional information on the invoice will facilitate the reviewing and correctness of the charges.

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Multiple Field Purchase Orders (FPOs) instead of 1 Purchase Order (PO)

Observations

The following information from contractors' invoices was observed during the review:

Contractors A and D (Cleaning and Surfacing)

<u>Invoice Date</u>	<u>Inv No</u>	<u>Amount</u>	<u>FPO No.</u>	<u>FPO Date "Received"</u>	<u>FPO Date "Auth"</u>	<u>Location</u>	<u>Service By</u>
Dec 12, 2005	2006-2	2835.50	69640	Dec 19, 2005	Dec 19, 2005	Vellore Village	V
Dec 12, 2005	2006-001	2975.14	69639	Dec 19, 2005	Dec 19, 2005	Vellore Village	V
Mar 22, 2005	2005-012	2996.00	64116	Mar 22, 2005	Mar 24, 2005	Dufferin Clarke	V
Mar 24, 2005	2005-013	2996.00	64118	Mar 24, 2005	Mar 25, 2005	Dufferin Clarke	V
Mar 12, 2005	2005-007	2455.65	66613	Mar 10, 2005	Mar 23, 2005	Al Pallidini	V
Mar 13, 2005	2005-008	2471.70	66614	Mar 10, 2005	Mar 28, 2005	Al Pallidini	V
Mar 18, 2005	2005-010	2996.00	64715	Mar 18, 2005	Mar 30, 2005	Al Pallidini	V
Mar 20, 2005	2005-011	2859.04	64716	Mar 18, 2005	Mar 30, 2005	Al Pallidini	V
Mar 6, 2006	3506	2375.40	84903	Mar 6, 2006	May 3, 2006	Chancellor	S
Mar 3, 2006	3406	2461.00	84902	Mar 3, 2006	May 3, 2006	Chancellor	S
Feb 7, 2006	2006-004	2996.00	81159	Feb 7, 2006	Mar 3, 2006	Chancellor	V
Feb 6, 2006	2006-003	2942.50	81157	Feb 6, 2006	Mar 3, 2006	Chancellor	V

None were observed in 2007 and 2008.

Contractor B (Renovations)

<u>Invoice Date</u>	<u>Inv No</u>	<u>Amount</u>	<u>FPO No.</u>	<u>FPO Date Received</u>	<u>FPO Date Auth</u>	<u>Location</u>	<u>Service Report</u>
Jun 9,08	5534	1538.25	114325	Jun 16, 08	Jun 17,08	Maple C.C	April 24, 2008
Jun 9,08	5535	2913.75	114326	Jun 16,08	Jun 17,08	Maple C.C	June 9, 2008
Jun 9,08	5536	1764.00	114324	Jun 16,08	Jun 17,08	Maple C.C	June 3, 2008
Jun 10,08	5537	1601.25	114329	Jun 16,08	Jun 17,08	Maple C.C	May 03, 2008
Jun 13,08	5539	2877.00	114327	Jun 16,08	Jun 17,08	Maple C.C	May 13, 2008
Jun 13,08	5542	945.00	114328	Jun 16,08	Jun 17,08	Maple C.C	May 23,2008
Aug 27,08	5623	2913.75	117536	Sep 9,08	Sep 11,08	Maple C.C	Aug 20, 2008
Aug 27,08	5624	1806.00	117537	Sep 9,08	No date	Maple C.C	Aug 24, 2008

Contractor C (Mechanical)

<u>Invoice Date</u>	<u>Inv No</u>	<u>Amount</u>	<u>FPO No.</u>	<u>Date Received</u>	<u>Date Auth</u>	<u>Location</u>	<u>Service Report date</u>
Apr 28, 08	35771	1358.70	113232	May 6, 08	Apr 15, 08	Vellore	Mar 27, 08
Apr 28, 08	35773	1799.70	113233	May 6, 08	May 6, 08	Vellore	Apr 2,3, 08
Apr 28, 08	35774	1158.15	113233	May 6, 08	May 6, 08	Vellore	Mar 31, 08

It was observed that after review of further documentation:

- 1) The FPO numbers issued are in "numerical order" because the invoices were accumulated and FPO processed at the same time.

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- 2) The FPOs are issued to the same vendor for different work at different times and quotes where received. The Vendor issued their invoices at the same time according to their office procedures.
- 3) The work done by the contractor was at the same facility but on different days.
- 4) The signature dates "received" and "authorized" were after the Invoice dates. (Refer to #1)
- 5) Purchase Orders could have replaced the FPOs as the cumulative total exceeded \$3,000. In some instances the work could have been combined if it was planned. It is acknowledged that the work is quoted and done at different times. However, the vendors may invoice once a month and staff process all the invoices at one time.

Implications

1. The purchase of services could be perceived as being split amongst a number of FPOs under \$3,000 so that the jobs are given to a particular contractor instead of the Purchasing Services Department issuing a Purchase Order to a contractor offering the best value. The practice of vendors issuing invoices once a month and Staff processing all invoices at the same time only amplifies this perception.

Recommendations

It is recommended that:

1. If numerous tasks are done to one location at the same time frame by the same Vendor, and the total cost will exceed \$3,000, then a Purchase Requisition should be issued to the Purchasing Services Department where possible to ensure that the City gets the best value and issue a Purchase Order.
2. In some instances it is necessary to issue multiple FPO's under \$3000 for service work at the same facility on the same day. (HVAC, Electrical, safety issues) however the supervisor should monitor closely to minimize these occurrences where multiple FPO's are issued.
3. Multiple FPOs are necessary in some instances for service call made at different times on the same day. Where the extent of the work is known or can be anticipated and planned, staff should contact the Purchasing Services Department and get them involved in obtaining the best value for the City and issue one Purchase Order.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department will implement these recommendations where possible and known at the time of requesting the work be performed. As noted in the review, the work is requested by different staff for a variety of safety issues at different times. There is only one supervisor in the East, and one in the West, however Staff will closely monitor the works for potential consolidation into a single PO where possible and the work can be planned.

Auditor's Response to Corrective Actions and Timeline:

The recommendations will be implemented where possible.

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Large expenditures on Contractors without Bids

Observations

It was observed during the detail review that the following annual expenditures were incurred for the following contractors:

<u>Year</u>	<u>V</u>	<u>S</u>	<u>A Mechanical</u>	<u>A Elec</u>
2004	9200	0	0	0
2005	105424	50452	0	0
2006	91555	146101	51709	0
2007	63005	224079	119322	52929
2008	0	179030	129064	252051

1. There was no bid document for V for 2005, 2006 and 2007 to add them to the Vendor of Record (VOR) list. The approved FPO process was utilized.
2. For S there was no bid document for 2006, 2007, and 2008 to add them to the VOR list even though the cumulative spent for each year exceeded \$100,000. The approved FPO process was utilized.
3. The VOR list has a term of usually 3 years and was updated in 2006. After 3 years, the VOR becomes out of date and a new VOR has to be established from a new bid submission.
4. For A Electrical and A Mechanical, the department has spent cumulatively on each in excess of \$50,000 annually. No bids were issued to add them to the VOR list. The FPO process was utilized. This was identified by the department in 2008 and bid documents were requested from the Purchasing Services Department for 2009 issuance. The process is now completed.
5. The dept issues a number of FPOs and POs to contractors/vendors during the course of the year. There currently is no system in place to keep management informed of the cumulative spending by contractor/vendor. This system would greatly assist the department in identifying the instances where they need to request the issuance of a bid document from the Purchasing Services Department for a certain type of work when spending is above \$100,000 for any vendor/contractor.

Implications

1. Large expenses are incurred with some contractors/vendors and no bids are issued. Some cumulative expenses exceed \$100,000, especially for speciality or emergency work.
2. A contract with a contractor/vendor could expire and the department continues to incur large expenses with the same contractor/vendor. A bid should be re-issued in a timely manner as there may be other contractors/vendors who may be able to provide similar services at lower prices. The department could be perceived as showing favouritism.

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Recommendations

1. When cumulative expenditures to a contractor utilizing the FPO process exceed \$100,000 for a certain type of work, it is recommended that a bid document should be issued to obtain the lowest bidder and/or select Vendors of Record. Council approval would be required to approve the Bid document for contracts over \$100,000. It is acknowledged by the Auditor that this is difficult to track especially when the service is used in multiple locations by several staff.
2. Management of the department should be provided with monthly reports from the JD Edwards system showing the cumulative amounts spent on contractors/vendors. Once \$50,000 has been spent cumulatively to a single contractor utilizing the FPO process, it is recommended that the Director of Purchasing should be consulted on what services the Purchasing Services Department recommends regarding bids, tenders or RFPs.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department identified the vendors and services that exceeds \$100,000 and has already began working with Purchasing Services to issue bids for the services identified in this report. Bids have already been issued and are now closed or are in the process of closing for those services.
2. The Director of Building and Facilities will establish a process for notification when cumulative amount thresholds are being reached for Vendors.

Auditor's Response to Corrective Actions and Timeline:

The recommendations are in progress. The department will work with the Purchasing Services department when cumulative purchases to one contractor starts to escalate to \$50,000 plus.

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Mileage Travel

Observations

1. Staff frequently travels between a number of community centres and work location/sites during the day.
2. One employee travels an average of 150 kms/week. At 48 weeks (assuming he takes 4 weeks vacation), the kilometres travelled would be approximately 7200 kms.
3. The City has a policy that over 5000 kms of travel, the reimbursement rate drops from .52c/km to .46c/km. per Canada Revenue Agency Guidelines
4. There is no tracking of kms of high travelling employees to ensure that above 5000 kms, the employee is reimbursed the reduced rate. This issue is not unique to this department only. The Department only has two employees who travel above the 5000 km threshold.
5. Further review and analysis showed that one employee was overpaid \$147.60 for 2008. Another employee was also overpaid by \$209.64 for 2008. Since the discovery, both employees have refunded the City for the overpayment.

Implications

1. Employees who exceed the 5000km range may still be paid the regular rate and not the reduced rate as per City policy.
2. The employee may be overpaid for mileage claims.

Recommendations

It is recommended that:

An Excel spreadsheet should be maintained of the mileage claimed by high travelling employees to ensure that once the 5000 km level is reached, the employee is reimbursed the lower rate per kilometre as per City policy.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department already has a mileage sheet in excel format for accuracy and consistency of distances frequently travelled. In addition, this will also assist in tracking mileage when yearly totals go over the 5000 km threshold. Since the Department has only 2 staff that go over this limit, the Department is reviewing potential of the use of a City vehicle or having areas of responsibility be split in order to reduce the mileage reimbursement.

Auditor's Response to Corrective Actions and Timeline:

The recommendations have been implemented. An Excel spreadsheet has been prepared to monitor mileage.

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Same Requisitioner, Authorizer and Receiver

Observation

It was observed during the review that on a number of Field Purchase Orders (FPOs), the requisitioner, the authorizer and the receiver would be the same person. (Not unique to this department). However, in almost all cases, a supervisor and/or Manager countersigns the FPO except for an odd occasion where the FPO is not countersigned.

Implication

By having one person as the requisitioner, authorizer and receiver, gives complete authority to one person due to lack of segregation of duties. This diminishes effective control unless there is a second reviewer with an authorized signature

Recommendation:

Where the requisitioner, the authorizer and the receiver is the same person, a supervisor or Manager should always countersign as well. This is good practise of effective internal control.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. The Department agrees with this suggestion and as noted in the report, this has only occurred "an odd time".

Auditor's Response to Corrective Actions and Timeline:

The Director usually does sign when the authorizer and receiver is the same person.

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Cafeteria Staff Worker

Observations

It was observed that the cafeteria independent worker presents her invoice of the total hours worked each week to a supervisor for payment. She bills the department for 49 hours each week which includes the time to purchase some items for the cafeteria. There is no breakdown of the hours by each weekday to arrive at the 49 hours but the employee starts at 6:30 am and finishes at 3:30pm. The department authorizes the payment of a cheque to her each week.

Implications

There is inadequate supporting documentation for the hours claimed. However, it would be noticeable if the employee is not at work for the agreed start and end times.

Recommendations

It is recommended that the cafeteria staff person should provide a weekly timesheet showing by day (Monday to Friday) the hours worked each day to arrive at the total hours for the week. The time to purchase items for the cafeteria should also be shown. This supporting documentation should accompany her invoice.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. A daily timecard has been implemented effective the week starting May 25.

Auditor's Response to Corrective Actions and Timeline:

Controls have been implemented. Work hours can now be verified.

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Cafeteria Losses:

Observations:

1. The Buildings and Facilities department is assigned annual budgeted funds for the cafeteria.
2. The cafeteria is manned by one employee B who prepares the food, serves the food, does the cleaning/washing of dishes and also does the cashier function.

It was observed that:

1. Customers often pay by cash and place the cash on the counter near the cash register. If a customer needs change for his/her purchase, he/she places the payment on the counter and takes the change from the cash on the counter. This is direct result of only one employee managing the operation.
2. Employee B sometimes leaves the register till open so that she can deposit the payment and give change to the customer directly from the register without spending time to open and close the register.
3. No receipts are given to customers. Cash register does not have that capability.
4. Not every cash sale is separately registered in the register.
5. Some customers will short pay as they may be short of the required amount and may pay the shortfall at a later date.
6. There is no register tape of cash sales to balance the daily cash takings in the till at the end of the day.
7. No thorough count of inventory is done at the end of the year to accurately calculate the cost of inventory.
8. The year-end (December 31) inventory is estimated each year with minor differences for the last 5 years.
9. The revenue, costs and net losses for the cafeteria for the last 5 years are as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>June 4 YTD 2009</u>
a. Total Sales \$	47505	60826	56411	67186	32447	12104
b. Materials and Supplies \$	36856	40810	41713	45369	30412	9766
c. Gross Profit \$	10649	19968	1469	21817	2035	2338
d. Wages \$	29547	32188 ^(+9%)	33514 ⁽⁺⁴⁾	40934 ⁽⁺²²⁾	44790 ^(+9.4%)	14595
e. Net Loss \$	18898	12219	18815	19117	42755	12257
f. GP to Sales %	22.4%	32.9%	26%	32.5%	6.3%	19.3%
g. Materials to Sales	77.6%	67.1%	74%	67.5%	93.7%	80.7%

10. The average GP to Sales% for 2004 to 2007 inclusive is 28.4%. 2008 shows an unusually low 6.3%. For 2009 year-to-date the 19.3% is an improvement from 2008 but is still below average. PowerStream moved out of the JOC in 2008 which is about 30% of the customers using the cafeteria. In addition, an additional helper was required in 2007 and 2008 to assist during peak periods.

11. The average Materials to Sales% for 2004 to 2007 inclusive is 71.6%. 2008 shows a high 93.7% as PowerStream moved out of the JOC. For 2009 year to date, 80.7% is an improvement from 2008.

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12. The cafeteria is losing between \$12,000 to \$19,000 annually except for 2008 where the loss has increased to \$43,000 as it lost a large share of its customer base and catering sales. 2009 June year-to-date shows a \$12,000 loss. This is an improvement from 2008.

13. Wage costs have increased over the years. For 2007 and early 2008, there was an additional assistant helping out due to illness, and hours were also increased to match staff's start times.

14. It was discovered that on April 15, 2008, the department switched from Styrofoam cups and lids (6 cents/unit) to organic (green bin) cups and lids (16.3 cents/unit). The price increased by 10.3 cents per cup and lid. The increase in price was not passed on to customers.

15. The reason for the shortfall in revenue could be due to one or more of the following:

- a. Less customer/traffic and catering with the loss of PowerStream
- b. Shrinkage of materials and supplies
- c. Prepared food leftovers-unsold items
- d. Food/drinks unpaid for or short paid
- e. The food prices are not marked up to reflect the actual costs
- f. Cash Shrinkage

16. Due to the yearly losses, the Cafeteria services provided at the JOC does not appear viable and should be re-evaluated on a yearly basis.

Implications:

- 1) Controls over cash are weak.
- 2) Shrinkage of cash is possible.
- 3) Controls can be improved.
- 4) Profit margins on sales are not maintained with rising food costs.

Recommendations:

It is recommended that:

1. All cash sales should be rung in the cash register by the cashier.
2. Customers should not short pay and owe money to pay later.
3. Customers should not take their own change when they overpay with notes and/or cash. The cashier should give the change.
4. No cash should be left lying on the counter near the register.
5. The cash register till should be closed after each sale has been rung in.

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6. The daily cash takings in the till should be checked to the cash register tape of daily sales at the end of the day.
7. Consideration should be given to raising selling prices and reducing the operating hours.
8. If losses continue, consideration should be given whether to continue operating the cafeteria or rather close it down and have vending machines to sell drinks, snacks and food.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. 3 and 4. All sales will be rung in. The worker will every effort to ensure that money is not left sitting on the counter and with this effort, this will reduce the opportunity for staff to make their own change. However, this may not be possible at all times as there is only one worker who may be involved in food preparation or cleaning.
2. There will not be any credit allowed.
5. The closing of the till after each transaction has been reinforced with the worker.
6. The Department will be obtaining a new register that can provide both a daily tape and customer receipts.
7. Sale prices will be reviewed and adjusted. The workers hours have been reduced.
8. The Department will continue to look for efficiencies and revenue opportunities, but does recognize that this operation will not generate a profit.

Auditor's Response to Corrective Actions and Timeline:

Recommendations have been implemented. Controls are now in place.

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A Disposal Company Weigh Tickets

Observations:

1. A Disposal Service charges the City a set rate as per the contract for pick up and dumping of the regular garbage containers. However for the 20/40 cu yd containers there is a set pick up fee and dumping fees based on the weight of disposal. The 40 cu. Yd container can usually hold up to 10,000kg and staff call for pick up once the bins are reported full. The calls are recorded and referenced once the invoices are received.
2. The weigh tickets reviewed showed that for Garnet Williams Community Centre, the weights varied from 3800 kgs (April 17, 2008), 730 kg (April 18) to 310kg (April 19). The 310 kg was apparently the last remaining garbage from Passover Holiday.
3. For 2800 Rutherford Road (JOC), weights varied from 8860 kg (April 7, 2008) to 6580 kg (April 11).
4. For Woodbridge Workyard, the weights varied from 9350 kg (August 5) to 7420 kg (August 20, 2008).
5. The weigh tickets are not signed to indicate that the weight was reviewed for correctness as this is not practical as staff is not present when the bins are weighted at the transfer station. Staff calls for pick up once the bins are reported full. The summary statement is signed and the back up documentation is attached. The invoice is not signed that it is correct and approved for payment. Additional approvals are given through the J.D. Edwards accounting system. (This only applies to the 20 and 40 Cu. Yd bins.) The other bins are per the approved contract fixed price.
6. A Disposal Service weigh tickets for other City of Vaughan locations are treated the same way.

Implications:

1. The department could be incorrectly charged for bin weights.
2. Bin weights could be inflated and charged to the City. However the review indicated that the weights varied on the invoices and the weights seldom reached the maximum weight allowance for the bins.

Recommendations:

It is recommended that

1. The department should note the dates when pick-ups are taken by A Disposal and the number of bins. The department should also note if a bin is less than 100% full.
2. The weigh tickets and invoices should be checked to the recorded dates and number of bins. The weights should also be checked for reasonableness.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

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1. Records are being kept of all calls being made for bin pick-ups. These dates are cross referenced against the weigh tickets and invoices prior to approval.
2. The weigh tickets will be cross-referenced to the call dates and against invoicing numbers.

Auditor's Response to Corrective Actions and Timeline:

More checks will be done between weigh tickets, date of pick up and invoice charges.

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Store Purchases

Observations

- 1) The department periodically purchases from stores such as Canadian Tire or Home Depot using the store's credit cards.
- 2) A control log is kept by the Custodian of the cards. It records the date, time out, requestor/employee name, employee signature, FPO and Invoice received, Date/Time in, Requestor initial return, Custodian initial.
- 3) The Canadian Tire Register or Home Depot receipts which list the items purchased are not signed by the purchaser. The FPO is signed by the purchaser and authorized by a supervisor.
- 4) A FPO is attached to the store receipt. The FPO is signed in the "authorized" and "received" sections. The FPO and receipt is sent to the Accounts Payable department by the Custodian of the store cards.
- 5) The monthly statements from these stores are sent to the Accounts Payable department.

Implications

Controls over store purchases can be improved. There are currently no corporate guidelines in place.

Recommendations

1. The store register receipts from Canadian Tire and Home Depot or any other stores should be signed by the purchaser. The Accounts Payable department can then match the signed receipt to the monthly statement and process the payment. Purchasing should issue guidelines to reflect the recommendations.
2. While the department does have a process and a log in place, the "FPO and Invoice received" column of the control log should also show the FPO number instead of a tick mark or "yes" answer.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

1. In addition to signing the FPO and the control log, the Department will implement the recommendation that the receipt be signed.
2. The Department will also ensure that the FPO number be consistently listed on the log sheet for each purchase.

Auditor's Response to Corrective Actions and Timeline:

Controls have been implemented.

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Incorrect Postings

Observations:

It was observed that:

1. Purchases from a coffee supplier are incorrectly charged to "Materials and Supplies" account for various business units.
2. For example:

	<u>Approximate 2008 cost</u>
a) Maple Community Centre	\$4,000
b) Dufferin Clarke Community Centre	\$ 660
c) Garnet Williams Community Centre	\$1,000
d) Trades Shop	\$8,000
3. Police Officers are hired to assist in the traffic of the west driveway entrance of the Vaughan Civic Centre. The charges were posted to "General Maintenance" account.
4. The department purchased utensils, cutlery and china from a vendor for \$1593.03. The cutlery was charged to "general maintenance" account.
5. Ten 36" square tables were purchased from a vendor for \$2556.40 and charged to "General Maintenance" account.
6. Expenses for Mister Coffee are regularly posted to "Civic Centre Janitorial supplies". Monthly costs vary from \$66.13 to \$534.63.
7. Also posted to "Civic Centre Janitorial supplies" was Fontana Garden Express for (Catering...) refreshments for the 3rd floor. Amounts charged were \$1738.76, \$2767.75, \$2231.92, \$2744.60.

Implications

- 1) The "Materials and Supplies" account, the "General Maintenance" account and the "Civic Centre Janitorial Supplies" account are overstated by the incorrect postings.

Recommendations

The expenses for (1) refreshment purchases which are purchased on a regular basis, (2) the hiring of outside services and (3) the purchase of cutlery (4) purchase of tables, are not "Materials and Supplies", "General Maintenance" or "Civic Centre Janitorial Supplies", and should be posted to the appropriate accounts for the business units. It is suggested that a "Miscellaneous Expense" account could be opened for these expenses and other expenses which do not fall into existing open accounts.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

The Department will review the various business units to determine where a Miscellaneous Expense account line may be appropriate. Staff will review the various items purchased that may

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fall into this category and ensure that staff correctly apply the purchases to the appropriate account line.

Auditor's Response to Corrective Actions and Timeline:

The recommendations will be reviewed.

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PST Charged in Error

- 1) The department hires the services of a network cabling specialist to disconnect, reconnect data cables, voice cables, data jacks and so on.
- 2) It was observed that the contractor incorrectly charged the department PST on labour to real property which should have been exempt. The auditor contacted the contractor who later confirmed the error and offered to reimburse the PST by cheque for the invoices in question. Some examples of invoices reviewed:-

<u>Invoice No</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>	<u>PST charged</u>
CV9216	10 August 2008	2305.00	184.40
CV9217	10 August 2008	1415.00	113.20
CV9210	29 April 2008	1702.40	106.40
CV9197	15 November 2007	513.00	36.00
CV9195	10 November 2007	250.80	17.60

- 4) The auditor has requested a printout of all transactions with this contractor for the last 4 years to determine all the transactions with this contractor. A review of some of the invoices at the department showed that the error was consistently applied. A total of \$52,440 was paid to the contractor by the department for the last 4 years. Material and labour costs have been consistently combined and PST was erroneously calculated on the total.
- 5) This error applies to all City departments which have used this contractor. The amount of refund could be a reasonable sum. Approximately \$99,000 was paid to the contractor by the City for all departments since January 1, 2005 to June 5, 2009. All invoices will be requested from the archives for review going back to the first time the department dealt with the contractor. This could be before 2005.
- 6) The auditor has informed the Finance and Purchasing Services Departments of this finding.
- 7) The contractor (KBR) was also informed to separate materials and labour for future invoices and to do the same to past invoices so that PST can be recalculated in order to refund the City for the overcharge since the error started.

Implication:

- 1) PST should not have been charged on any labour to real property. PST is exempt on labour to real property.
- 2) If PST is charged by other contractors whose invoices show "supply and install" to real property, then this error could repeat itself.
- 3) There may be more contractors who are making the same mistake and are charging the City in error for PST.

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Recommendation:

- 1) It is recommended that the department should check invoices of other contractors who charge PST on "supply and install" to real property, to ensure that PST is not charged on the labour portion.
- 2) The department should work with the Finance department and this contractor to collect all the PST that was charged in error from day one.
- 3) The Finance department should print out all transactions with this contractor since day one (for all departments) and work with the contractor to determine how much PST was charged in error going back to when the error was first made. The PST overcharged in error should then be requested as a refund.

Corrective Actions and Timeline (Commissioner Marlon Kallideen Response)

Staff will work with the Finance Department and Purchasing Services to review the appropriate tax rates and ensure that the taxes portion of purchases made are in accordance with the requirements.

Auditor's Response to Corrective Actions and Timeline:

This will be followed up in due course.

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CONCLUSION

1. Based on the expanded scope of audit work mentioned in the beginning of the audit report and the additional work approved, the 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 fully cooperated during all aspect of the Audit, and responded favourably to all observations and recommendations in the Internal Audit Report.
3. When all corrective Actions and Timeline 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.