
The Corporation of the City of Windsor

Your Quick Gateway (YQG) - Managing Inventory, Repairs and Maintenance

*Final Internal
Audit Report*

April 26, 2018

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Internal Audit Context

Background Information

The YQG internal audit is part of the Council approved 2017/18 Internal Audit Plan. Internal Audit has been tasked to perform a “Selected Review” of key risk areas in YQG’s operations that warrant attention due to the nature of the risk. YQG provides airport management services to the City under the Windsor Airport Management Agreement. The Management agreement stipulates the nature of operations managed by YQG as follows:

- | | |
|---|---|
| a) general management of Airport operations; | h) electrical maintenance; |
| b) management of Airport Contracts; | i) security; |
| c) firefighting; | j) grounds keeping; |
| d) runway, taxiway and apron maintenance; | k) housekeeping; |
| e) regulatory compliance; | l) parking operations and administration; and |
| f) accounting and financial matters; | m) administration of Capital Improvements. |
| g) maintenance/repair of buildings and equipment; | |

The operations department is led by the Director of Operations with Manager of Operations who assists him. The operations department includes four crews, each having three staff members. The mandate of the operational department is to assist on matters related to the operations of YQG Airport including the Airport terminal, groundside and airside areas, as well as maintaining and operating the Airport in compliance with applicable laws and regulations, including but not limited to, Canadian Aviation Regulations.

Some of the key functions overseen by the Director of Operations are as follows:

- Manage the annual operating budget and provide input into the five-year capital plan;
- Oversight of ongoing maintenance and capital replacement of assets;
- Liaise with applicable government authorities, including Transport Canada; and
- Participate in safety management audits and assisting with internal, independent and Transport Canada audits.

Scope

For the purposes of this internal audit, we considered controls over supplies inventory such as goods used as part of YQG's operations, as well as routine repair and maintenance services procured to maintain assets owned/managed by YQG.

For critical items used in YQG's operations, we considered the processes for replenishment, replacement and maintenance, as well as the adequacy of documentation to support key decisions and purchases. We focused on reviewing the following expense categories/items pertaining to the regular up-keep of YQG managed airport equipment and operational inventory and tools:

- Chemical Deicers (and other key consumable inventory/supplies);
- Ground handling assets and related expenses;
- Mobile equipment and maintenance;
- Other equipment maintenance;
- Tools, small equipment, spare parts;
- Airfield maintenance; and
- Fire truck maintenance.

The scope of this internal audit included an assessment of the controls in effect for the period October 1, 2016 through September 30, 2017.

Internal Audit Objectives

In conducting this internal audit, we considered the process and control mechanisms management has in effect to achieve the following control objectives:

Policies and Procedures for Inventory Replenishment, Equipment Replacement & Maintenance

- 1.1 Documented procedures and policies surrounding supplies inventory replenishment, replacement & maintenance control exist.
- 1.2 Documented policies and procedures are reviewed periodically by the management.
- 1.3 Compliance/awareness is confirmed with the policies and procedures set in place.

Supplies Inventory Replenishment, Operational Equipment Replacement

- 2.1 Supplies inventory quantities are complete, accurate, valid, and recorded in the proper period.
- 2.2 Purchases (via credit cards, petty cash, cheque, electronic funds transfer etc.) are accurate, authorized, and appropriate and follow a structured purchasing process based on the size, nature and value of the goods/services procured.
- 2.3 Competitive procurement methods are used in order to confirm the best price and quality of goods/services received.
- 2.4 *Purchase requisitions are prepared by the requesting department for materials and supplies purchased and are reviewed and approved by authorized individuals before purchase commitments are made. Similarly, appropriate procedures exist for the procurement of maintenance services.*
- 2.5 Reports displaying relevant costs (e.g. materials, labor) related to a project are reviewed on a periodic basis by personnel with requisite knowledge. Cost overruns or variances from expectations and unusual items are investigated and resolved on a timely basis.

Supplies Inventory Reconciliation & Operational Equipment Monitoring

- 3.1 Reconciliations are performed to minimize risk of misappropriation of supplies inventory and to manage the over/under payment of goods/services.
- 3.2 Periodic physical supplies inventory counts are performed by comparing quantities on hand to quantities recorded.
- 3.3 Purchase order and good receiving documents are sequentially numbered and a check is performed to confirm documents are not missing, duplicated or fall outside of a specified range of numbers.

Segregation of duties within key operational / financial processes.

- 4.1 Adequate segregation of duties exists within key operational/financial processes which cover recording, authorization and custody of supplies inventory (i.e. restricted physical access and/or receipt of maintenance services).
- 4.2 Procedures for vendor selection and maintaining an approved list of vendors.
- 4.3 Appropriate authority and approval matrix is defined having authority limits for approval of replenishment/replacement of supplies inventory.

Specific Scope Exclusions

Our work will be dependent on the following management activities which are excluded from the scope of this review:

1. The design, implementation and operation of the Information and Technology (IT) environment and IT general controls, End User Computing controls, application controls and data integrity for IT dependent manual controls;
2. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data;
3. Maintenance services provided by external service providers (except for the procurement of these services);
4. Capital (City owned) assets and supplies inventory other than maintenance activities managed by YQG; and
5. Expenses for labor payments pertaining to maintenance of assets/supplies inventory.

Scope Limitations

During the course of the review the following process characteristics limited our ability to test or validate operating effectiveness of a specific controls:

- **Vendor management**- Verbal quotes cannot be verified as documentation or logs of verbal quote is not retained;
- **Personal use of corporate assets**- Records of YQG small tools used for and/or taken offsite for personal use are not retained; and
- **Repairs and Maintenance** - Reports displaying repairs costs related to a planned or unplanned maintenance or the associated actions to manage costs over the life of the asset/ supplies inventory items are not maintained.

Summary of Internal Audit Results

Report Classification

In the course of the internal audit, specific controls were identified that address the some control objectives listed above. However, there are identified processes and controls which need formalization and additional monitoring.

Control Environment

Key operational roles & responsibilities, minimum standards, monitoring and approval procedures, asset management, maintenance planning and vendor management procedures, and reference to other applicable procedures are not captured in any overarching policies or within procedures at an asset category level. As such, the design of controls at a process level place a higher degree of dependence on control environment and oversight controls. For example: Board meetings are held on quarterly basis and budget versus actual analysis are presented to the Board with rationale for significant variances identified. Other oversight functions include the CEO's oversight of the key operations and decisions including policy changes, reviewing invoices and signing payment cheques. Further, periodic management meetings are held to discuss various operational and financial matters including operational budget by receiving input from the Director of Operations.

Risk Assessment

Inherent process risks were discussed with YQG Management and internal audit procedures were framed against practices applied elsewhere in the City, to identify process and control gaps and recommended procedural controls. The outcomes of review indicated that several risks faced by the YQG through its operations, were not addressed to satisfy the attainment leading control practices or available policies were silent on such risks. Where implementing additional control activities are not possible, the risks related to loss/misuse or disruption to operations have not been quantified to a potential level and accepted by YQG.

Without comprehensive and adequate policies, management may be limited in confirming / demonstrating whether the mix of key controls are appropriately implemented to manage public perception/reputation risks.

Control Activities

With the absence of a formal set of policies and procedures, YQG has implemented various informal controls in place over the management of inventory and the airport's operational equipment/fleet maintenance needs. The key measures YQG should focus on enhancing and noted in this report are:

- maintenance plans for vehicles and equipment with a defined plan/schedule or triggers (such as scheduled inspections, maintenance periods/cycles etc.);
- documentation and tracking of inventory during acquisition and processing stage to minimize loss of oversight over the amount of quantities held;
- clear position on employee use of small tools for personal purposes;
- central procedure or policy for inventory/asset management, replacement, replenishment; and
- a centralized database/ listing as well as lack of documentation and tracking of asset/ inventory mentioned above.

YQG's current purchasing policy establishes clear thresholds for authority and the policy is reviewed on an ad-hoc basis by management and the Board. However, vendor management processes/ procedures reviewed by Internal Audit, could be enhanced with specific key controls over pre-screening of vendors for potential conflicts of interest, performing credibility checks, vendor performance evaluation, and changes in vendor master file. Further, competitive procurement method was not required by current policies nor sole source vendor approval was obtained for one sampled recurring service provider/vendor. Management should document guidelines for the following procurement mechanisms: verbal quotes, written quotes, open tenders, vendor pre-qualifications, sole source, emergency purchases.

One individual, during the scope period was responsible for purchase and work initiation and authorization functions. Independence and objectivity of work requests and vendor selection is more likely to be perceived as impaired or unintentionally lead to transaction errors or corrections, if conflicting duties are not adequately segregated and enforced. Given the size of the administrative functions at YQG, there was an inherent limitation to confirm adequate segregation of duties exists around key functions as a result in recent changes in roles/responsibilities. However, management has plans to design and implement control practices for managing potential conflicting duties in key operational areas and roles.

YQG has developed relationships with local suppliers and merchants to source equipment/tools and other supplies inventory and in some instance have set up purchase account or store credit card to facilitate efficient purchasing processes. However, procedure for usage of store credit cards and store purchase accounts with different vendors are not documented.

In summary, there is limited or undefined segregation of duties requirements, controls framework or reporting or operational equipment inventory tracking system at YQG. Further, vendor master file controls could be improved/updated, leveraging the City's templates/forms.

Information and Communication

In terms of formal flow of information regarding practices to be adopted, the Director of Operations is responsible for communicating expectations and responsibilities to employees about consumable and tools inventory handling. Currently the operational budget is prepared by expense category and by asset category based on prior years trends in actual costs. Budget versus actual variance analysis (quantitative) is performed on monthly basis and is presented to the Board during the quarterly Board meetings.

Monitoring

Owing to the nature of its inventory management relies on daily monitoring and physical security to keep account of the inventory. There were areas and categories of inventory/assets in which monitoring controls were not implemented consistently or the control had not been defined to enable continuous monitoring/improvement.

Through discussion with management, there are ongoing plans to implement inventory management system (Fleet Focus) which should address the above mentioned concern.

Based on the controls identified and assessed for design as part of the internal audit of the YQG inventory handling processes, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No major concerns noted	Cause for concern	Cause for considerable concern
For the objectives related to 1. Policies and Procedures for Inventory Replenishment and Equipment Replacement & Maintenance				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to 2. Supplies Inventory Replenishment, Equipment Replacement & Maintenance				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to 3. Supplies Inventory Reconciliations and Equipment Monitoring				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to 4. Segregation of duties within key operational / financial processes				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

Summary of Positive Themes

Based on the fieldwork conducted by Internal Audit, the following positive themes were noted:

Policies and procedures for inventory replenishment, replacement & maintenance

- Canadian Aviation Regulation Standards provides the regulation and sets standards for inspection and maintenance of the fire vehicles.
- There is an approval threshold for routine and emergency purchases, section 4 of purchasing policy. During our testing of selected samples, we found that approval thresholds were consistently complied with.

Inventory replenishment, replacement & maintenance

- There is a protocol for regular vehicle and equipment maintenance and follow-up set up. This is done through acquiring services of external vendors.
- Items that require frequent replenishment, there is an informal process of supplies inventory tracking and reconciliation.

Inventory reconciliations and monitoring

- Evidence of purchase account/ corporate card statement was noted in the samples obtained.
- There is a clear process for submitting and documenting expenses, whether using vendor purchase accounts, Store Credit Cards and/ or City issued P-cards. Each invoice is approved by the Director of Operations and is further reviewed and approved by the Director of Finance and / or CEO as a monthly batch.
- Budget versus actual variance analysis (quantitative) is performed on monthly basis and is presented to the Board during the quarterly Board meetings with rationale for significant variance if any.

Segregation of duties in key inventory and maintenance operations

- Invoices received from vendors are reviewed and approved by the Director of Operations and submitted to the Accounts Payable department for payment processing.
- Invoices are reviewed and approved by the CEO and/ or Director of Finance prior to payment.
- Subsequent to payment, the Director of Finance reviews cleared/cancelled cheques to confirm payee of the cheque and compliance of dual signature.
- Access to make changes to vendor master file is limited to the finance department.

Summary of Findings

Finding #	Topic	Rating ¹			Management Action Plan
		Significant	Moderate	Low	
1. Policies and Procedures for Inventory Replenishment, Replacement & Maintenance					
1	Enhance Purchasing policy, and document inventory and asset management procedures <i>(Design Effectiveness)</i>	X	-	-	Compile and/or enhance purchasing polices to include replacement of asset criteria and consider asset inventory system – Q2, 2019
Supplies Inventory Replenishment, Replacement & Maintenance					
2	Review and document current inventory/ asset management systems and processes <i>(Design Effectiveness)</i>	-	X	-	Create an asset tracking system for significant categories – Q1, 2019
3	Enhance key vendor management controls <i>(Design Effectiveness)</i>	X			Create additional controls regarding vendor file changes – Q4, 2018
Please also refer to finding #1.					
Supplies Inventory Reconciliations and Monitoring					
4	Strengthen controls over store credit cards and vendor purchase accounts <i>(Operating Effectiveness)</i>			X	Replace purchase accounts with City P-Cards and enhance review and documentation processes of purchases made by P-Cards – Q3, 2018
Please also refer to finding #1 and additional consideration for improvement #1.					
Segregation of duties within key operational / financial processes					
5	Enhance compensating controls to address segregation of duties <i>(Design Effectiveness)</i>	X	-	-	Embed segregation of duties requirements into policies – Q4, 2018
Please also refer to finding #1 and finding #3.					
Total		3	1	1	

¹ See Appendix A for Basis of Finding Rating and Report Classification

Summary of Significant Findings

Internal audit identified three significant findings related to the design effectiveness of controls, specifically:

1. the purchasing policy needs to be updated with the key missing elements and inventory and asset management procedures should be documented. The absence of policy direction may result in behaviors and actions that are not in line with corporate expectations or impair the corporate brand/image;
2. management should perform a review of its key vendor management controls against key financial and reputational risks and develop key monitoring controls to mitigate against unauthorized or inappropriate purchases; and
3. management should enhance compensating controls to address segregation of duties in the Operations department to decrease the risk of inappropriate payments, misappropriation and unauthorized use of inventory.

Management Comments

Management agrees with the above summary.

Name: Carolyn Brown
Title: Chief Executive Officer
Date: April 27, 2018

Detailed Observations

Enhance purchasing policy and document inventory and asset management procedures - (Design Effectiveness)			Overall Rating: Significant
Impact:	Medium	Likelihood:	Highly Likely
<p>Observation: We noted (i) key elements that were not present in YQG’s purchasing policy, (ii) other process/ procedure elements that appear to be known but not formalized and (iii) requirements/ constraints on the personal use of YQG small tools is not formally defined.</p> <p>i. In comparing YQG’s purchasing policy to the City’s purchasing manual, we found that following key elements were not present:</p> <ul style="list-style-type: none"> • thresholds for single source purchases, quotations (formal/ informal or written/ verbal), request for tenders, request for proposals; • blanket contracts; • managing vendor relationships; • conflict of interest disclosure; • disposal and sale of out of service assets; • sole vendor approval, and • segregation of duties requirements or mitigating controls. <p>ii. Processes and/or procedures related to supplies inventory replenishment, replacement and the reporting of maintenance costs / targets are not formally documented. Discussions with management indicated personnel have an awareness of the informal requirements.</p> <p>iii. Employees are permitted to use small tools for personal use, and to take tools offsite, however evidence of such approval is not retained. The common protocol is that any operational staff member can use the small tools for personal use by simply noting it on the whiteboard within the maintenance department. There is no documented policy/ procedure to govern the personal use of the small tools by staff. During the course of preforming inquiries with management, we were not informed of any missing or unaccounted for tools/equipment.</p> <p>Further, we were informed that staff the operations department are permitted to use YQG vehicles in certain circumstances for use off-site. However, evidence of appropriate approvals for these circumstances (see scope limitation) is not required nor is there a documented guideline governing the appropriate use of vehicles within the established employee expense policy.</p> <p><i>Please refer consideration for improvement #1 as procedures may need to be updated for implementation of new Fleet Focus system.</i></p>			
<p>Implication: Potential behaviors and actions that are not in line with corporate expectations or impair the corporate brand/image. People dependent processes increase the risk of a process failure or inefficiency when personnel with experience or documented procedures are not accessible.</p> <p>Personnel are more likely to use corporate vehicles for personal use given informal controls, lack of defined policy/potion and past permissible experience which may result in a lack of compliance with corporate and personal tax obligations.</p>			
<p>Possible root cause: Policies and procedures (or sub-components thereof) have not been formally defined and approved.</p>			

Enhance purchasing policy and document inventory and asset management procedures - (Design Effectiveness)	Overall Rating: Significant
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Recommendation:

YQG management should update the current purchasing policy manual for the following missing elements:

- thresholds single source purchases, quotations (formal/ informal or written/ verbal), request for tenders, request for proposals;
- blanket contracts;
- managing vendor relationships;
- conflict of interest disclosure;
- disposal and sale of out of service assets;
- Sole vendor approval; and
- Segregation of duties requirements or mitigating controls.

YQG should align or leverage elements of the City's purchasing framework/ policy, including but not limited to, tracking and approving personal usage of small tools.

YQG management should develop and implement a formal set of procedures to address the following:

- Processes and/or procedures related to supplies inventory replenishment;
- Processes and/or procedures related to replacement targets based on usage or service and maintenance cost history;
- Repair and maintenance of assets;
- High level principles and rules regarding segregation of duties;
- Procedures governing personal use of asset/ small tools;
- Procedures governing use of YQG vehicles off site;
- Tracking and management of supplies inventory and asset' and
- Usage of fleet focus system.

YQG's position on personal use of corporate assets, especially vehicles, should be clearly articulated and communicated to allow for appropriate fiduciary responsibility and enable compliance with Canadian tax legislation.

Management Action Plan

<p>Action Plan: Management agrees with the recommendation. YQG will enhance YQG purchasing policy for YQG Board approval and create a small-asset control system. YQG will make a recommendation to the YQG Board regarding formal policies related to the replacement of assets based on usage and/or maintenance-cost algorithms, but which also considers the primacy of Transport Canada requirements, safety, the fact there are limited resources for asset replacement and there are competing interests for those resources, and the fact some of these decisions have authority levels outside of YQG.</p>	<p>Responsible Party:</p>	<p>Director of Operations</p>
	<p>Due Date: Revised Purchasing Policy presented to YQG Board</p>	<p>Q4, 2018</p>
	<p>Recommendation to YQG Board regarding small-asset control system, fleet-tracking system for maintenance and policies regarding vehicle use and high-level segregation of duties.</p>	<p>Q4, 2018</p>
	<p>Report to YQG Board regarding processes and/or procedures related to asset replacement targets</p>	<p>Q2 2019</p>

Review and document current inventory/asset management systems and processes - (Design Effectiveness)			Overall Rating: Moderate
Impact:	Medium	Likelihood:	Likely
<p>Observation: In our review of the process controls we noted the following three control elements should be enhanced:</p> <ol style="list-style-type: none"> 1. Asset inspection plans for vehicles and equipment do not have a defined plan/ schedule or triggers. 2. Inventory monitoring/reconciliation controls are not formalized or evidenced. 3. Central inventory listing is not maintained. <p>Further details are below:</p> <ul style="list-style-type: none"> • Regular inspections and maintenance of vehicles and equipment is carried out by external service providers; however, there are no documented guidelines/ schedules for maintenance or inspection of asset condition. There may be asset condition information captured on work orders or invoices from maintenance providers, however contract terms with these providers do not currently specify maintenance schedules or expectations as to the frequency of routine inspections. Internal inspection of vehicles is performed by the staff daily prior to usage; however, no policy gives authority to this inspection nor are the outcomes of the inspection documented, retained and reviewed for response. • The supplies inventory is monitored and reconciled informally and there is no evidence retained of the monitoring and reconciliation. For example, a log is maintained for the de-icer chemicals usage to enable timely monitoring and reconciliation, however similar tracking is not maintained for other assets/ small tools etc. • There is no central repository or database of in-service assets/equipment/supplies inventory maintained for accountability, monitoring, reconciliation and reporting purposes. For example, individual items in the following categories are not maintained in centralized list/report/database etc: small tools, hand tools, light equipment, fleet, and other airport/ fire equipment. <p><i>For recommendations on formalizing controls into policy/ procedures, please refer finding #1.</i></p>			
<p>Implication: Requirements or responsibilities may not be known or understood by those involved in the process. Misuse and misappropriation of inventory may go unnoticed for an extended period of time. Unplanned major repairs or unexpected breakdowns resulting in service deliver complaints.</p>			
<p>Possible root cause: Protocols are understood by the key staff which include some required steps. Common procedures for inventory control have not been defined/ documented to be applied consistently.</p>			
<p>Recommendation: Once policies regarding inventory control are designed and implemented, YQG should assess the different categories of inventory which are feasible to track. Subsequently, YQG should implement consistent tracking and oversight procedures for similar categories of supplies inventory/ assets across or within operational areas, while assigning owners of this process at a site level and on a more centralized level.</p> <p>Further, a policy or guideline should be in place to provide guideline on assessment of asset condition and what triggers an assessment (schedule, usage, indicators, judgement, etc.).</p> <p>When an asset or equipment assessment occurs the outcomes should be documented, reviewed, a plan resolution or acceptance made and the overall analysis approved. Records should be organized and retained by asset category or unit.</p> <p>Implementing a formal preventive maintenance schedule (by major class of asset) may also act as a source of input for operational budget or vendor negotiations.</p>			

Management Action Plan		
Action Plan: Management agrees with the recommendation. Management will create an asset tracking system for significant supplies, equipment and small tool inventories for presentation to the YQG Board.	Responsible Party:	Director of Operations
	Due Date:	Q1 2019

Enhance key vendor management controls - (Design effectiveness)			Overall Rating: Significant
Impact:	Medium	Likelihood:	Highly Likely
<p>Observation: We identified the ten (10) vendors receiving the largest aggregate payments from YQG during the audit scope period. When considering good practices observed at organizations in the public sector for engaging with and managing vendors for these top 10 parties we noted the following practices were not evident:</p> <ul style="list-style-type: none"> • Pre-screening of vendors for background of service quality and to perform credibility checks. • Vendor performance evaluation specifically for recurring vendors. • Independent approval and documentation of approval for changes to existing vendor records (i.e. address, name, contact details) and adding new vendors to vendor master file was not documented at the time commitment to purchase was made. • Recurring services were obtained from a sole source vendor (Electrical service provider) however, formal approval of the sole source rationale was not documented. • A competitive procurement method was not performed for 5 of 10 selected for testing, nor was sufficient rationale documented for application of non-competitive procurement methods. These five were noted by management as key maintenance and repair service providers. • Purchase requisitions/orders are prepared only as required for vendors. <p><i>For recommendations on formalizing controls into policy/ procedures, please refer finding #1.</i></p>			
<p>Implication:</p> <ul style="list-style-type: none"> • Fictitious or inappropriate vendors may lead to financial/ reputational loss. • Unauthorized purchases and expenditures may occur. Independence and objectivity in vendor selection is more likely to be perceived as impaired. • Duplicate purchases / payments may not be detected. • Goods received might not meet corporate requirements/needs. 			
<p>Possible root cause:</p> <p>Management relies on compensating management review controls over payment processing to prevent or detect unauthorized vendor master file changes given there are a low volume of vendor master file changes. Formal vendor management protocols have not compared to best practices.</p>			

Enhance key vendor management controls - (Design effectiveness)	Overall Rating: Significant
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Recommendation:

Part of recommendation is dependent on the adequate resolution of segregation of duties observation noted in finding #5, regarding adequate monitoring controls and evidentiary documentation to support that purchase requisitions are prepared by someone other than the purchase reviewer/approver. Assuming the recommendations/risks in finding #5 are not addressed with, YQG management should consider implementing vendor management processes and controls to:

- Pre-screen vendors (background, financial and conflict checks, etc.);
- Conduct vendor performance evaluations;
- Identify and provide analysis/ rationale, impact and approved when sole sourcing or a non-competitive process is used;
- Review and document independent approval of changes to existing vendor records (i.e. address, name, contact details) for validity/accuracy prior to making purchase commitment.

Further recommendations to address other risks noted in this observation, include:

- Guidelines for when competitive bids are and are not required and when sole sourcing is permitted should be established;
- Vendor spending analysis (generated from the system) should continue to be reviewed periodically; and
- Clarify thresholds as to when purchase requisitions and purchase orders are required should be defined and implemented.

Management Action Plan

Action Plan: Management agrees with the finding. Management is addressing the segregation of duties and purchasing procedures as part of the Recommendations #1 and #5.

In addition to the segregation of duties regarding the initial purchase, YQG will also create additional controls regarding vendor file changes.

Responsible Party:

Director of Finance

Due Date:

Q4 2018

Strengthen controls over store credit cards and vendor purchase accounts - (Operating Effectiveness)			Overall Rating: Low
Impact:	Low	Likelihood:	Likely
<p>Observation: There is no documented procedure for usage of credit cards and purchase accounts with different vendors. For example, terms of acceptable use of store purchase accounts or required approval of the terms of arrangement are not defined or acknowledged by staff.</p> <p>In testing 20 samples of corporate card and purchase account payment transactions for evidence of approval and business purpose, we noted:</p> <ul style="list-style-type: none"> two items were purchased by an individual holder of the store credit card who is also responsible for approving the purchase. <i>Please refer finding #5 for segregation of duties;</i> one cash register receipt was missing, however the monthly statement from home depot was retained and was approved by designated authorities. In the absence of a cash register slip/ invoice, it is unclear whether the purchase was approved at the time of the transaction; and seventeen did not have the purpose of the purchase noted on the receipt/ invoice at the time of the identifying the service requirements or specifications for inventory items/goods. <p>The above missing elements are good practice controls when using credit cards and purchase accounts. <i>For recommendations on formalizing controls into policy/ procedures, please refer finding #1.</i></p>			
<p>Implication: Legitimate business purpose and tracking of costs against budgeted maintenance costs or at an asset level may not be available.</p>			
<p>Possible root cause: Common procedures, with minimum standards of adherence, have not been defined to be applied across operational areas.</p>			
<p>Recommendation: YQG management should:</p> <ul style="list-style-type: none"> define, approve and implement store credit card and purchase account usage procedures. These procedures should be communicated to operational staff; transition operations staff onto the City’s P-Card program and reduce use of store-specific credit cards; leverage the city’s P-Card procedures and tailor them to YQG store credit card/ purchase accounts; and scan invoices and retain in accordance with related asset for future tracking. 			
Management Action Plan			
<p>Action Plan: Management agrees with recommendation. Management will replace purchase accounts with City P-Cards for select operations staff. Business-purpose of expense to be written on receipt. All expenses to be authorized by a manager (other than the purchaser) who has knowledge of the expense. P-Card payments reconciled by accounting. Payment authorized by CEO and Director of Finance. Accounting will add all new purchases of tools to a perpetual listing, with physical counts at least annually.</p>	Responsible Party:	Director of Finance	
	Due Date:	Q3, 2018	

Enhance compensating controls to address potential segregation of duties - (Design Effectiveness)			Overall Rating: Significant
Impact:	High	Likelihood:	Likely
<p>Observation: An individual was identified as having privileges that impair segregation of duty controls. One individual is responsible for various activities including but not limited to:</p> <ul style="list-style-type: none"> • providing inputs into the maintenance and repairs expense budget; • selecting vendors; • requesting goods and services (issuing work orders); • negotiating terms with vendors/stores; • receiving goods; and • reviewing service requests and approving payments etc. <p>There is a pre-payment approval requirement through which each invoice is reviewed and signed by the CEO and Director of Finance. However, this mitigating control is unable to address the timeliness of approval for valid business reason of goods or services and the corporation would retain liability for purchases made on their behalf. Based on the controls evaluated over payments to vendors, no direct evidence of fraud or misuse of funds was observed.</p> <p>Given the current design of the mitigating controls we were unable to assess whether approval by the Director of Operations occurred close to the time of transaction or at a later date.</p> <p><i>For recommendations on formalizing controls into policy/ procedures, please refer finding #1.</i></p>			
<p>Implication:</p> <ul style="list-style-type: none"> • Incompatible duties performed by one individual may increase the risk of unauthorized purchases and liabilities; Independence and objectivity in work requests is more likely to be perceived as impaired or unintentionally lead to transaction errors or corrections. • Purchase may be made without legitimate business purpose; and • Increased risks of misappropriation and unauthorized use of inventory. 			
<p>Possible root cause: Segregation of duties, or sufficient compensating controls, are not currently in effect across key operational responsibilities.</p>			
<p>Recommendation: Management should create a section in the purchasing policy for segregation of duties policy which defines the key functions that require segregation and compensating or mitigating activities. This policy should include a list of incompatible duties and identify core tasks performed by the operational department at YQG.</p> <p>Sufficient evidence of the compensating controls execution in proximity to the risk should be documented and retained. A log of vendor generated from the system should be reviewed prior to the assignment of new roles and authority levels. Segregate roles of purchase requisitions / work request initiator and vendor purchase orders approver.</p>			
Management Action Plan			
Action Plan: Management agrees with the recommendation and will incorporate related segregation of duties into policy as part of response to Recommendation #1	Responsible Party:	Director of Finance	
	Due Date:	Q4 2018	

Considerations for Improvement

1. Inventory management system (Fleet focus)

Observation:

Reports or records with costs related to a project/ inventory (initial cost and associated repair and maintenance costs over the assets life and disposal costs) and the associated actions to manage costs over the life of the asset/ inventory items are not maintained at an item level. This can impact YQG's ability to accurately assess the plan of action to repair vs replacement of asset or outsource vs insource repair and maintenance decisions.

Currently, maintenance operations are undertaken manually without having a work order system and the fleet focus initiative could be expanded for managing additional asset categories. Management is planning to include modules that will help in tracking of preventive maintenance for equipment and will generate alerts. Further, function to generate work order system will also be added.

Recommendation:

A project management committee or formal charter should be created to document and track major milestones and attainment of specific deliverables prior to implementing the Fleet Focus system, such that there is a clear approach and adequate support to enable better data capturing and timely decisions. Approval of defined requirements for the Fleet Focus system should be documented by such the project management lead.

Management should include the following modules in the inventory management system to help generate:

- comprehensive preventive maintenance (PM) schedules;
- work orders and labor tracking;
- assist in acquisition and disposal of asset;
- replacement Modeling; and
- parts and supplies inventory management.

Management should perform cost benefit analysis and consult with the City's fleet department in consideration of future enhancements to the system.

Further, there may be opportunities to leverage the Fleet Focus system to accurately capture staff time spent on internal work orders/maintenance requests to enable cost comparisons with external service provider alternatives. Such internal work orders generating labour hours and rate per hour information may be used for Payroll and potentially interface with other financial reporting systems to fulfil management's objectives.

Appendix A: Basis of Findings Rating and Report Classification

Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> History of regular occurrence of the event. The event is expected to occur in most circumstances.
Likely	<ul style="list-style-type: none"> History of occasional occurrence of the event. The event could occur at some time.
Unlikely	<ul style="list-style-type: none"> History of no or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value ²	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Significant control weaknesses, which would lead to financial or fraud loss.</p> <p>An issue that requires a significant amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · Failure to meet key strategic objectives/major impact on strategy and objectives. <ul style="list-style-type: none"> · Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> - Loss of key competitive advantage / opportunity <ul style="list-style-type: none"> - Loss of supply of key process inputs · A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building. <p>Legal / Regulatory Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p>An issue that requires some amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · No material or moderate impact on strategy and objectives. · Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives <ul style="list-style-type: none"> · Moderate reputational sensitivity. <p>Legal / Regulatory Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgmental Assessment	<p>Internal Control Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> · Minimal impact on strategy · Disruption to normal operations with no effect on achievement of corporate strategy and objectives <ul style="list-style-type: none"> · Minimal reputational sensitivity. <p>Legal / Regulatory Regulatory breach with minimal consequences.</p>

² Dollar value amounts are agreed with the client prior to execution of fieldwork.

Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> • Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • No action taken on previous significant audit findings to resolve the item on a timely basis.
Cause for concern	<ul style="list-style-type: none"> • Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • A number of significant controls identified as not operating for which sufficient mitigating backup controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • Little action taken on previous significant audit findings to resolve the item on a timely basis.
No major concerns noted	<ul style="list-style-type: none"> • Control design improvements identified, however, the risk of loss is immaterial. • Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • Some previous significant audit action items have not been resolved on a timely basis.
No or limited scope for improvement	<ul style="list-style-type: none"> • No control design improvements identified. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.

Appendix B: Limitations and responsibilities

Limitations inherent to the Internal Auditor's work

We have undertaken the “specified” internal audit of YQG, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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