

City of Mississauga
Internal Audit Report

CORPORATE SERVICES DEPARTMENT
FACILITIES AND PROPERTY MANAGEMENT DIVISION
FACILITIES MAINTENANCE SECTION
SUPPLIES INVENTORY AUDIT

November 5, 2021

City Manager's Department
Internal Audit Division

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**CORPORATE SERVICES DEPARTMENT
FACILITIES AND PROPERTY MANAGEMENT DIVISION
FACILITIES MAINTENANCE SECTION
SUPPLIES INVENTORY AUDIT**

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**Corporate Services Department
Facilities and Property Management Division
Facilities Maintenance Section
Supplies Inventory Audit**

BACKGROUND

The Facilities Maintenance (FM) Section is part of the Facilities and Property Management (F&PM) Division within the Corporate Services Department. FM is responsible for maintaining 369 buildings (i.e. community centres, pools, arenas, libraries, corporate administration offices, theatres, museums, transit and works buildings, parks comfort stations, depots, and heritage sites and buildings, etc.) as well as site services (i.e. parking lots, sewer, water, hydro, sports fields lighting and pathway lighting) for 320 parks and 233 parking lots. Approximately 25,600 preventative and demand maintenance work orders were initiated by FM staff and external contractors in 2019 and 24,000 in 2020.

Facilities Maintenance is comprised of three (3) units: Electrical and Life Safety, HVAC & Mechanical Services, and Structural and Site Services. There are 28 full-time non-union staff, comprised of Supervisors (3), Tradespersons (15), Contract Administrators (7), Business Analysts (1 permanent, 1 NCO) and Admin Coordinator (1), all reporting to the Facilities Maintenance Manager.

Facilities Maintenance Supervisors, Contract Administrators and Tradespersons each have a City-issued Procurement card (P-card) to purchase inventory for operations and maintenance functions. In 2019 and 2020, inventory valued at approximately \$667K and \$775K, respectively, was purchased within the FM section.

SCOPE

The audit examined the adequacy of processes and controls around the purchases and management of inventory in the period January 1, 2019 to December 31, 2020.

For the purposes of this audit, the term 'supplies inventory,' or simply 'inventory,' is defined to include the following items:

- Consumable supplies – such as grease, oils, spray paints, lubricants, etc.;
- Materials – such as lightbulbs, filters, etc.;
- Tools – items found in the staff vehicle such as drills, wrenches, etc.; and
- Shop tools – more expensive tools, infrequently used tools or tools to be shared amongst FM staff.

Not in scope

The audit scope did not include the following:

- Preventative and demand maintenance work completed by vendors who supply the inventory;
- Office supplies;
- Mileage and other items not related to inventory that might be claimed by staff;

- Assessment of labour resources utilized to complete work;
- Professional services rendered by contractors and/or vendor contracts;
- System components that interface into the enterprise financial system;
- Inventory controls in other sections within F&PM; and
- Review of capital or operational projects led by Facilities Maintenance.

OBJECTIVES

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing and was guided by a risk assessment performed in June 2021 in partnership with the section's management team. The audit focused on the review of the adequacy of internal controls related to the management of inventory that help mitigate relevant risks related to the following business objectives:

- A) Sufficient inventory is available to maintain City-owned assets as it relates to Electrical and Life Safety, HVAC & Mechanical Services, and Structural and Site Services units;
- B) City-owned assets are operational and functional;
- C) Forecasting the inventory required to maintain equipment and facilities; and
- D) Existing inventory is adequately safeguarded.

SUMMARY OF OBSERVATIONS

With the adoption of P-Cards for Facilities Maintenance (FM) staff, the process of purchasing and managing supplies inventory has been decentralized, with the objective of gaining efficiency and minimizing operational disruption to facilities maintained by the team. When these changes occurred, management established a number of guidelines to ensure that the process kept a reasonable level of control.

However, some of these controls need to be further reinforced and others need to be implemented to increase the ability of FM management to ensure that the inventory being purchased in a cost-effective manner and that the risk of misuse, loss and theft is minimized. In general, FM would benefit from further documenting the processes, establishing a mechanism to accurately track inventory over a certain threshold amount, improving the capture of information in the electronic systems and strengthening supervisory review over inventory purchased.

A detailed list of observations and recommendations was provided to management, along with a separate list of lower risk opportunities for improvement.

The main observations and recommendations are summarized below. Appendix A outlines the detailed recommendations and the action plans proposed by management.

Centralize and enhance the process to track and control the inventory

Facilities Maintenance staff use various processes to manage and record consumption of items purchased. For instance, materials purchased via P-Card are not inventoried; however, their

consumption is recorded in a work management system, whereas staff tools are recorded in Excel documents and an inventory of shop tools is recorded on paper. A partial count of inventory identified \$50K in materials (majority being hoist materials for Transit) and 365 staff tools distributed through staff vehicles and site locations. The actual amounts of a complete inventory are expected to be higher.

The audit also noted inconsistencies with how materials used were recorded against work orders, which makes tracking the actual amount of materials consumed more prone to error.

The situation increases the risk of misuse, loss or theft of material and tools that may go unnoticed for an extended period, diminishes management's ability to identify trends and forecast consumption and impairs investigation of any potential issue.

Reinforce supervisory review over purchases and consumption of inventory

Amongst other duties, supervisors are expected to review expense reports submitted by staff, review the information entered in the work orders (to ensure appropriate costing information is entered) and conduct site visits (to verify work has been completed and materials purchased have been used).

Supervisors approve monthly expense reports in a timely manner, however, the audit found inconsistent practices regarding the quality of review of those reports. From a sample of 88 purchases that were reviewed, 28 entries had an incorrect work order number entered in the receipt, 40 entries did not have a detailed receipt of the purchase, 19 entries did not reflect the items purchased in the respective work order, and 2 receipts which included labour were missing WSIB/insurance information. Furthermore, while supervisors randomly reviewed work orders, logs were not entered in the work orders to demonstrate which were reviewed and what was concluded.

Considering that the same staff are responsible for purchasing, utilizing and recording consumption of inventory, without a strong supervisory review the risk of lack of compliance with the purchasing policy, use of incorrect materials, and misuse and misappropriation is increased.

Enhance security of higher priced materials, tools and shop tools

Facilities Maintenance management advised Internal Audit of theft of shop tools that occurred between 2018 and 2021; the person(s) responsible have not been found. Two items (estimated value unknown) disappeared sometime in or before October 2018. Another item (with an estimated value of \$6,000) disappeared sometime between February and March 2020. Another item (purchased January 2020, with an estimated value of \$1,500) disappeared sometime between October 2020 and April 2021. The broad uncertainty as to when the thefts occurred was due to the lack of periodic checks and infrequent use of these items. Management considers that low occupancy at the office due to the pandemic was also a factor. All of these items were taken from a locked storage area; however, there were no security cameras in the vicinity.

Identifying items as City of Mississauga property, adding/repositioning security cameras, increasing lighting and keeping keys in the secure, card-activated key box can assist in minimizing the possibility of misappropriation and items going undetected for a long period of time.

Improve recording of material and cost-related information on work orders

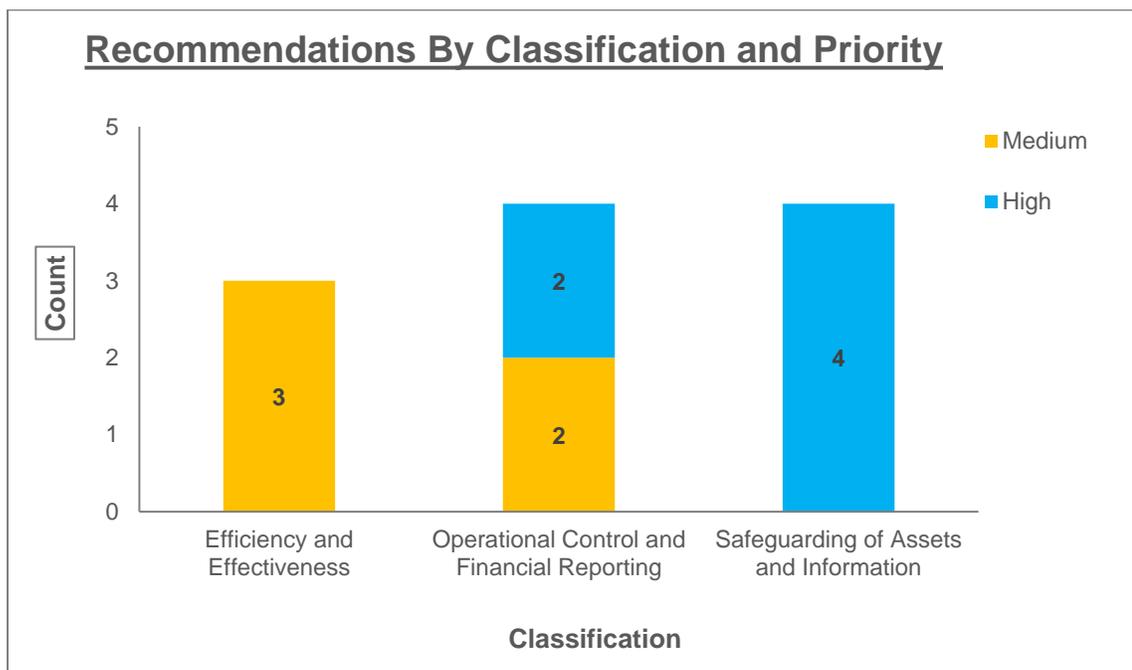
The audit noted inconsistent practices in how the information regarding purchases and use of materials is recorded in the financial and work management systems, which support different stages of the process. As mentioned before, in most of the sample reviewed, reconciling the materials purchased (as recorded in the financial system) with the work orders (in the work management system) was not possible due to incomplete information.

Capturing partial or incorrect information may result in an inability to trace the consumption of items purchased, reduces accountability over the inventory and potentially results in incorrect asset lifecycle information.

CONCLUSION

The process around purchasing and tracking supplies (consumables, materials, staff tools and shop tools) at Facilities Maintenance needs improvement in areas such as accurately capturing information, formalizing documentation, tracking inventory, reinforcing security of higher priced inventory, and strengthening supervisory review. While the use of P-Cards to allow staff to directly purchase the supplies needed (with pre-approval for tools) has increased efficiency of the process, our recommendations are intended to ensure that additional scrutiny is exercised by supervisors in order to foster accountability and prevent or minimize the risk of misuse, loss and/or theft.

A total of eleven (11) recommendations resulted from this audit. The table below summarizes the recommendations by classification and priority.



Details of the audit recommendations and management comments may be found in Appendix A.

Management has agreed to all eleven (11) recommendations. Two (2) will be completed by Q1 2022, three (3) will be completed by Q2 2022, five (5) will be completed by Q3 2022, and one (1) will be completed by Q4 2022.



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**Corporate Services Department
Facilities and Property Management Division
Facilities Maintenance Section
Supplies Inventory Audit
Summary of Audit Recommendations**

Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That Facilities Maintenance (FM) assess the different categories of inventory (with thresholds) which are feasible to track. Thereafter, establish a central inventory process to manage and monitor items within the identified categories (i.e. excess materials, tools and shop tools) and reconcile with purchases and consumption. This process should also take into account the tracking of materials stored in the vehicles and site locations, which (if necessary) could be tracked manually and sent for updates to the central system on a periodic basis. Depending on the category, consideration should be given to capturing information such as: item category, item name, description, what is it used for, make, model, serial number, supplier, date purchased, quantity, purchase price, condition, storage location, etc.).	High	In the short term, FM will review the inventory (materials, excess materials, tools, and shop tools) and create categories based on range values. This can be completed by March 31, 2022. SharePoint will be used to capture excess materials, tools, and shop tools. FM will explore options for an inventory management solution pending budget approval if necessary. A business case will need to be developed in order to submit a Business Request. To be completed by July 31, 2022	Safeguarding of Assets and Information
2	That FM randomly conduct physical counts of the categorized items on a frequent (i.e. monthly or quarterly) yet random basis.	High	FM will develop and implement a schedule of how and when the inventory will be physically counted. To be completed by April 30, 2022	Safeguarding of Assets and Information
3	That a consistent process be established and applied across all units within FM for staff to input accurate and complete information into the respective systems, in order to ensure an appropriate audit trail regarding purchases and consumption.	Medium	Standard Operating Procedures (SOPs) to be further developed to ensure all FM staff are inputting complete and accurate information in the correct system. Refresher training will be provided to staff once the SOPs are developed to ensure FM staff are consistent with the process. To be completed by April 30, 2022	Operational Control and Financial Reporting
4	That the application used by Trades staff be updated to provide a prompt when an asset is under warranty.	Medium	Capital funding was budgeted for 2022 in PN 21521 to migrate F&PM and CMS staff who are currently using a MyWork application to Infor Field Inspector (IFI)	Efficiency and Effectiveness

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			<p>in 2022. As part of the migration, we will add in the current warranty check in IFI that is being used by FM contractors. We are currently planning the 2022 work plan, and expect both migrations to be completed by the end of 2022 if the capital request for that year is funded.</p> <p>To be completed by December 31, 2022</p>	
5	<p>That further guidance to staff and supervisors is established, including specific steps that supervisors are expected to take when reviewing expense reports and WOs. Considering that one employee purchases, utilizes and records the lifecycle of such items, the frequency of supervisory review of WOs should be increased.</p>	High	<p>SOPs to be further developed to ensure all FM staff are inputting complete and accurate information in the correct system. Refresher training will be provided to staff once the SOPs are developed to ensure FM staff are consistent with the process.</p> <p>To be completed by March 31, 2022</p>	Operational Control and Financial Reporting
6	<p>That FM staff attach WSIB and insurance information for any P-card expenses where external contractors are brought in to complete work.</p>	High	<p>SOPs to be further developed to ensure all FM staff are inputting complete and accurate information in the correct system. Refresher training will be provided to staff once the SOPs are developed to ensure FM staff are consistent with the process.</p> <p>To be completed by March 31, 2022</p>	Operational Control and Financial Reporting
7	<p>That FM work with Materiel Management to perform analysis to identify trends (i.e. frequent vendors, amount of purchases made at a specific vendor, amount of money spent at specific vendors, spends approaching or surpassing medium- or high-value limits, etc.) specific to each unit to determine if it is practical to establish contracts with the respective vendors.</p>	Medium	<p>FM to work with Materiel Management and F&PM Financial Analyst to develop reports to further analyze spends and trends.</p> <p>To be completed by September 30, 2022</p>	Efficiency and Effectiveness

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8	That reports (i.e. Infor materials report) utilized by FM be updated to reflect costs entered by all FM staff.	Medium	<p>FM to work with Information Technology to modify the reports.</p> <p>To be completed by September 30, 2022</p>	Efficiency and Effectiveness
9	That FM tools and shop tools be marked as City of Mississauga property. Consideration should be given to including a trackable tag (i.e. GPS tag) on valuable items.	High	<p>FM to purchase an engraver to tag tools/shop tools and identify as City of Mississauga property. FM to explore using GPS for high dollar-value items.</p> <p>To be completed by July 31, 2022</p>	Safeguarding of Assets and Information
10	That Security Services install security cameras closer to the FM Bay areas, in the FM storage and shop area. Further, Security Services will work with FM to identify and enhance the theft prevention controls (i.e. enhance lighting in the FM storage area, store keys in the locked key box, etc.).	High	<p>Security Services will complete a risk assessment of the area to determine optimal location for potential camera installation. Note all camera installations require the approval of the Director of F&PM.</p> <p>Security Services also recommends that FM complete an audit of items in this location and create a checklist of existing higher value inventory. This checklist should be verified twice a week. Any discrepancy on the checklist should be reported to Security Services and Audit.</p> <p>Target date for camera install pending Director approval and funding from FM.</p> <p>To be completed by July 31, 2022</p>	Safeguarding of Assets and Information
11	That FM develop processes/procedures/guidelines outlining the complete purchasing process as it relates to FM (i.e. examples of when to use which account numbers, process steps, documentation required, how the purchases are	Medium	<p>SOPs to be developed to encompass all stages of the purchasing process. Refresher training will be provided to staff once the SOPs are developed to</p>	Operational Control and Financial Reporting

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	recorded in the work system used by staff, etc.) and be consistently applied across all units within FM. The procedure needs to be accompanied by periodic training of staff and increased supervisory oversight to ensure understanding and accurate execution of controls.		ensure FM staff are consistent with the process. To be completed by April 30, 2022	
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