5
AUDIT SERVICES BRANCH REPORT

The Audit Committee recommends the adoption of the recommendation contained in the following report dated May 18, 2010, from the Director of Audit Services.

1. RECOMMENDATION

It is recommended that:

1. Council receive this report for information.

2. PURPOSE

This report provides an update on the activities of the Audit Services Branch since the last Audit Committee meeting.

Attachment 5, Wireless Security audit report in a private attachment as it concerns the security of the property of the Region.

3. BACKGROUND

On October 11, 2000, the Audit Committee approved the development of the Audit Services function through the report of the Chief Administrative Officer.

4. ANALYSIS AND OPTIONS

4.1. Audit Plan Execution

The Audit Services Branch has been actively executing the approved Three Year Audit Plan and other consulting engagements on *Attachment 1*. A summary of the activities since the previous Audit Committee meeting is outlined in *Attachment 2*.

4.2. Audit Reports Issued

The audit reports issued since the last Audit Committee meeting are:

- Outstanding Audit Recommendations Follow Up for June 2010 Audit Report (*Attachment 3*)
- Accounts Payable and Procurement Audit Report (*Attachment 4*)
- Wireless Security Audit Report (Private) (*Attachment 5*)

5. FINANCIAL IMPLICATIONS

Audit Services Branch will manage its workload within the Audit Budget for 2010.

6. LOCAL MUNICIPAL IMPACT

Audit Services Branch will continue to provide audit services to the six local municipalities who have signed the memorandum of understanding.

7. CONCLUSION

A follow up of outstanding audit recommendations for audit reports issued prior to March 31, 2010 indicates that management remains cognisant and active in implementing Audit Services recommendations.

Audit Services continues to work with Region management at all levels to provide them with an independent, objective assurance and consulting activity designed to add value and improve the Region's operations. Audit Services does this by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through guidance provided by the International Standards for the Professional Practise of Internal Auditing

(The five attachments referred to in this clause were included in the agenda for the June 10, 2010 Committee meeting.)

ATTACHMENT 1

Process / Project	Nature of Work	2009	2010	2011	Total Hours Per Project	% of Total Hours per Year
		Year				
Planning & Development						
Infrastructure Planning - Roads and Water&Watestewater	Audit	115	140		255	2.4%
Total Hours Spent in Department					255	2.4%
Finance & IT						
Capital Asset Management	Advisory	70			70	0.7%
Electronic Documents Management System	Advisory	35	35	35	105	1.0%
Computer Technology Review Committee	Advisory	60	60	60	180	1.7%
Captial Assets Management	Audit			120	120	1.1%
Revenue Sources	Audit		280		280	2.6%
Procurement Card	Audit		180		180	1.7%
Accounts Payable & Procurement - Substative	Audit	560			560	5.2%
Efficiency & Effectiveness of Procurement & AP Process	Audit			560	560	5.2%
Treasury	Audit		140		140	1.3%
IT Services - Network Security Assessment	Audit	140			140	1.3%
IT Services - Leasing to Purchasing	Audit		140		140	1.3%
IT Services - Converged Network	Audit			140	140	1.3%
IT Services - FTP	Audit			140	140	1.3%
Total Hours Spent in Department					2,755	25.8%
Community & Health Services						
Long Term Care - Accreditation Process	Advisory			70	70	0.7%
Technology Support	Audit	140			140	1.3%
Housing Provider Subsidy Administration	Audit	140			140	1.3%
Rent Subsidy Program	Audit			140	140	1.3%
LTC Operations Facility Support & Res. Services	Audit		280		280	2.6%
Finance Assitance	Audit			140	140	1.3%
Employment Assistance	Audit		185		185	1.7%
EMS - Paramedic Operations	Audit	210			210	2.0%
Infectious Diseases Control	Audit			140	140	1.3%
Total Hours Spent in Department					1,445	13.5%
Environmental Services						
Operations Maintenance & Monitoring	Audit		280		280	2.6%
Capital Planning & Delivery	Audit			140	140	1.3%
Regulatory Compliance	Audit	200			200	1.9%
Dufferin Plant Operating Agreement	Audit		185		185	1.7%
Dongara Central Compliance	Audit			140	140	1.3%
Water Rates Review	Consulting	140			140	1.3%
Total Hours Spent in Department					1,085	10.2%
Transporation Services						
Capital Planning & Delivery	Audit		280		280	2.6%
YRT - Cash Collection - Coin Contract	Audit		185		185	1.7%
YRT - Contracts - Conventional & Mobility	Audit			140	140	1.3%
YRT - 8300 Keele Operations Facility	Audit			140	140	1.3%
YRT - DPI & Byte Media Contract Review	Audit			140	140	1.3%
Operations & Safety	Audit	280			280	2.6%
Total Hours Spent in Department					1,165	10.9%
Corporate & Legal Services						
Records Information Management	Advisory	35	35	35	105	1.0%
Property Management	Audit	140			140	1.3%
Human Resources - Staffing,	Audit			115	115	1.1%
Court Administration - North	Audit	140			140	1.3%
Total Hours Spent in Department					500	4.7%
Chief Administrative Officer						
Business Continuity / Emergency Planning Comm.	Advisory	35	35	35	105	1.0%
Audit Plan Update	Consulting	-	-	70	70	0.7%
Outstanding Recommendations Follow-up	Audit	140	140	140	420	3.9%
Management Requests	Various	420	420	420	1,260	11.8%
Forensic Reviews	Various	560	560	500	1,620	15.2%
Total Hours Spent in Department					3,475	32.5%
Total Hours per Year		3,560	3,560	3,560	10,680	100.0%

ATTACHMENT 2

AUDIT SERVICES BRANCH ACTIVITIES

Project Name	Status
1. Wireless Security Audit Report	➢ Completed
2. Accounts Payable and Procurement Audit Report	➢ Completed
3. Outstanding Audit Recommendations Follow-up June 2010	➢ Completed
4. C&HS Housing Subsidies	➢ Planning
5. Process review – Surplus Stock – Management Consulting	➢ In Progress
6. Various Investigations	➢ In Progress
7. Toronto Water Supply Agreement – Management Consulting	➢ Completed
8. Roads – Operations & Safety Audit	➢ Planning
9. Various Fairness Monitoring Projects	➢ In Progress
10. York Utilities Procurement to Pay	➢ Advisory role
11. ERP Group	➢ Advisory role
12. Corporate Technology Review Committee	➢ Advisory role
13. Electronic Document Management System	➢ Advisory role
14. Records and Information Management Group	➢ Advisory role
15. Program Reviews	➢ Member of Steering Committee
16. Outside Organizational work	➢ Vice Chair, Municipal Internal Auditors Association ➢ Board Member & Past Chair, Canadian Association of Local Government Auditors ➢ Board Members & Past Treasurer, Canadian Association of Local Government Auditors ➢ ALGA Peer Review Team Member

Outstanding Audit Recommendations Follow Up Audit Report

June 2010

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1.0 Management Summary

Audit Services has completed a follow up of outstanding audit recommendations. These recommendations are comprised of:

1. Audit recommendations that were noted as 'not yet completed' in our previous outstanding audit recommendations follow up audit report dated February 2010.
2. Any new audit report recommendations issued up to and including March 31, 2010.

There were 39 audit recommendations originally issued through the four audit reports currently on our list for follow up. Prior to this review, 12 audit recommendations, or 31% had been implemented. From the remaining 27 recommendations, 12 have been implemented. At March 31, 2010, 24 recommendations, or 61.5% of the original 39 recommendations issued have been implemented.

For a detailed summary of audit reports followed up and recommendations issued, completed and outstanding, please refer to section 4.0. Additional detail is available upon request from the Director, Audit Services.

2.0 Introduction

As part of our 2010 Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from the Audit Committee and Management, the Audit Services Branch performed a follow-up of outstanding audit recommendations. These recommendations included those noted as outstanding in our November 2009 audit recommendations follow up audit report, and all new recommendations issued in audit reports up to and including March 31, 2010.

The Audit Plan, approved by York Region's (the Region's) Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps to define the different risks associated with the various processes here at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

On a periodic basis, Audit Services updates the Regional Audit Committee and the Chief Administrative Officer (CAO) on the status of issued audit recommendations. To provide this update, Audit Services contacts Commissioners and Directors to confirm the status of the issued recommendation(s) relating to their area. In some cases, the status is further validated directly by Audit Services through discussions and / or detailed testing. This is an integral part of our audit process that allows us to confirm that the opportunities for improvement outlined in the audit report(s) have been implemented.

Department heads were e-mailed requests containing:

1. A summary of outstanding audit recommendation(s) for their area.
2. A request to provide a status update and a confirmation of the original due date for implementation of the recommendation, or a new anticipated implementation date if necessary.

Management Action Plans that detailed what was being done to implement the recommendation(s), was also requested.

Finally, an Executive Sign-off Form, to be signed by the Commissioner and Director responsible for the implementation of the recommendation(s), was also sent.

Audit reports issued after March 31, 2010 will be followed up in the future.

Additionally, Audit Committee, at the February 14, 2008 meeting, requested management provide a report to Audit Committee for any outstanding audit recommendations that remain outstanding greater than a year. Any items greater than a year outstanding have been reported to Audit Committee.

3.0 Objectives and Scope

The objective for this engagement was:

- To provide feedback to the York Region Audit Committee and CAO, as to the disposition of issued audit recommendations.

The audit scope to accomplish this objective was:

- All outstanding audit recommendations issued prior to March 31, 2010.

4.0 Detailed Observations and Recommendations

4.1 Detail Summary Statistics for Outstanding Audit Recommendations Followed Up

- Table A summarizes the outstanding audit recommendations followed up for this review.
- Table B is a mid-level summary of outstanding audit recommendations followed-up for this review.

TABLE A - Summary of Outstanding Audit Recommendations Follow up as at March 31, 2010

Audit Report	Number of opportunities originally highlighted	Previously completed	Completed for this review	Not yet complete	% Not yet complete	Date of Audit Report	Date Reported to Audit Committee
Finance - Payroll	6	5	0	1	16.7%	Oct-07	Nov-07
Fleet Audit - Corporate Level	8	6	0	2	25.0%	Apr-05	Jun-05
Standby Pay	4	1	3	0	0.0%	Sep-09	Feb -10
W&Ww Capital Delivery – Planning & Development	4	0	1	3	75.0%	Sep-09	Feb -10
W&Ww Capital Delivery – Environmental Services	14	0	7	7	50.0%	Sep-09	Feb -10
W&Ww Capital Delivery – Finance	2	0	1	1	50.0%	Sep-09	Feb -10
W&Ww Capital Delivery – Corporate Services	1	0	0	1	100.0%	Sep-09	Feb -10
Results for June 2010	**39**	**12**	**12**	**15**	**38.5%**		

TABLE B – Mid-level Summary of Outstanding Audit Recommendations as at March 31, 2010

Audit Report	Recommendation	Management response	Original due date	Current due date
Finance				
Finance – Payroll	TEAMS interface with Time & Labour, periodic password change requirements, continuing role out of Time & Labour to reap benefits of automation.	TEAMS testing with Time & Labour has begun. Department reorganization and technical issues have pushed Schedulesoft implemented in 2011	Q1 2008	2011
Fleet – Corporate	Develop and implement Corporate and Department level fleet policy and procedure manuals. Ownership of Corporate level to belong to Insurance Risk management. Ownership of Department level manual to belong to the fleet areas within the department.	A new procedure has been established by the Office of the CAO for passing of policies not requiring Council approval requiring policy documents be signed off by all involved before proceeding to CAO for review, comment and signature. Some of the staff involved in the original review of the Fleet policy have left the Region and new staff are now involved and have requested additional time to review. Due to this new input we expect this policy will not be ready to present to CAO until December 2010	Q1 2005	Q4 2010
Fleet – Corporate	Periodic driver abstract collection.	The MVR process is part of the overall Fleet Policy. As mentioned above, the review of this policy is in the hands of a different set of staff reviewers. It is now anticipated that it will be year end 2010 before it is presented to the CAO for review.	Q4 2005	Q4 2010
Planning &Development				
W&Ww Capital Delivery	Finalizing processes mapping relating to the application process	Infrastructure Planning has developed the process for development application review in discussion with other branches in Planning & Development Services, and with Environmental Services. The process map will be completed as scheduled.	Q4 2010	Q4 2010
W&Ww Capital Delivery	Formalizing roles & responsibilities relating to cross-functional activities between Planning & Development – Infrastructure Planning and Environmental Services – Planning & Capital Delivery	Planning & Development Services and Environmental Services have worked together to prepare a new roles and responsibilities document identifying cross-functional activities. The document will be reviewed and finalized.	Q4 2010	Q4 2010

Audit Report	Recommendation	Management response	Original due date	Current due date
W&Ww Capital Delivery	Calibration of water modeling software	A joint working group between Capital Planning & Delivery and Infrastructure Planning has been formed to maintain and update the models as required. Planning & Development Services - Infrastructure Planning, and Environmental Services - Capital Planning & Delivery management are working together and determined that both applications currently in use require more calibration.	Q2 / Q3 2010	Q2 / Q3 2010
Environmental Services				
W&Ww Capital Delivery	Development of the historical and lesson learned database	Scoping and development of the centralized database commenced in Q2 2010 and is scheduled for pilot testing in Q1 2011 with final completion by summer 2011	Q3 2011	Q3 2011
W&Ww Capital Delivery	Review of project manager binder and project review log	CPD is developing a Project Phase Audit System within Eclipse to facilitate Manager sign-off at each project stage to ensure compliance to CDIP. A post Project Audit System is also being developed as a stand alone program that will facilitate a systematic approach to project audits at the end of project. The use of paper binders has been phased out.	Q4 2010	Q4 2010
W&Ww Capital Delivery	Capital Planning & Delivery management consider reviewing scheduling software currently employed in the Region to determine if there may be a more useful human resource allocation application available to them.	CDP Staff are developing a framework to estimate and analyze resource requirements for each type and phase of project. This will allow CPD management to better plan resource loading and allocation to projects. The first phase of the project is data gathering (benchmarking information on staffing vs capital budget from other municipalities). An application is being developed in Excel.	Q1 2011	Q1 2011
W&Ww Capital Delivery	Implementation of a formal contractor performance evaluation process	Pilot projects were identified in 2009 and pilot testing of the new CPES system is underway along with preparation of the user manual.	Q4 2010	Q4 2010
W&Ww Capital Delivery	Project files requiring records retention and administration	Information re record and information management was received from Corporate Services – Records and Information Management. Recent staff turnover required hiring replacements for two administrative positions. CPD management is committed to addressing this issue.	Q1 2010	Q3 2010

Audit Report	Recommendation	Management response	Original due date	Current due date
W&Ww Capital Delivery	Corporate records and records retention compliance	Corporate Records & Information Management (RIM) has updated the Retention By-law that will reflect changes to classification codes affecting CPD to meet compliance. Workplan has been reviewed by RIM with respect to the Environmental Services Department. The reorganization into Versatile has been completed with the new structure and codes. All new files created follow the new structure. The updating of remaining on-site file codes to be performed by Office Services Staff within the Strategy and Business Planning Branch of Environmental Services.	Q3 2010	Q3 2010
W&Ww Capital Delivery	Project oversight for compliance to Environmental and Health & Safety regulations	Further to the last update consultative meetings were held with York Region's Health and Safety Staff to outline an improved strategy for Health and Safety Documentation (including a simplified flowchart and checklist) to be included in the Contract documents and Consultant Agreements. Business cases were approved as part of the 2010 Budget Process. Interviews for the remaining three positions are ongoing. The new staff will provide immediate increase in oversight for compliance with Environmental and Health and Safety Regulations.	Q2 2010	Q2 2010
Finance				
W&Ww Capital Delivery	Clarifying information and maintenance for the Capital Project Status Report	Target date set not changed. Completion can only be deferred if a review of the 2010 budget process results in further budget changes impacting capital reporting.	Q2 2010	Q2 2010
Corporate Services				
W&Ww Capital Delivery	Creating a Holdback Policy for Construction and Construction Related Activities	Legal Services has already amended contract templates to include a requirement for holdbacks. Legal Services will work with the CAO's Office to prepare a policy setting out the Corporate requirements regarding holdbacks for presentation to Senior Management.	Q2 2010	Q3 2010

Finance – Procurement & Accounts Payable Audit Report

June 2010

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1.0 Management Summary

We have completed an audit of the Regional Municipality of York's (the Region's) compliance with the requirements as contained in the Purchasing By-law A-0353(a)-2006-053. The focus of our review was to determine if supporting documentation and processed disbursements were accurate, adequately supported, and appropriately authorized. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

The scope of the audit included detailed testing of a selected sample of Accounts Payable disbursements for the period January to July 2009, and a review of related supporting documentation retained in Supplies & Services. Interviews were performed with appropriate personnel as necessary. Testing was conducted at a sufficient level of detail to allow us to evaluate the Region's compliance with the current purchasing by-law and accounts payable best practices.

The last full Procurement and Accounts Payable audit was conducted in 2006 and overall results show improvements in reductions in the use of field purchase orders, fewer split purchases, and we found no procurement issues relating to reporting to Regional Council.

We did find however, that a recommendation from the previous audit to move away from the assignment of approval limits to individuals, and assign approval limits based on job function, has not yet been adopted. The administration issues associated with the Notification of Signing Authority Forms (NofSA) continues. Management had agreed to the recommendation. The recommendation simplified the administration of approval limits, and highlighted only the exceptions to approval limits normally granted.

In a few cases related to detailed testing of invoices noted as improperly approved, regular administration and updating of NofSA forms would have resolved some of them.

Based on the work we performed, we concluded that the Region is generally in compliance with the Purchasing By-law. Opportunities for internal control improvements were noted and discussed with appropriate management. These improvements relate to:

- Periodic reiteration of individual responsibilities to those who are active within both the purchasing and payment cycles.
- Finalizing the Signing Authority Policy.
- Updating the Payment of Accounts Policy to include a requirement for, and definition of acceptable supporting documents for accounts payable documents.
- Updating and maintaining the Notification of Signing Authority documentation and electronic file.
- Increased vendor analysis as a proactive measure to help ensure that the goals of the Purchasing By-law are continuously upheld.

This report has been discussed with Senior Management in the areas affected by the observations and recommendations, who have provided us with their comments and agreed to take the necessary action to implement the recommendations.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services appreciates the cooperation and assistance provided by Accounts Payable and Supplies & Services management and staff.

2.0 Introduction

As part of our Audit Plan, the Audit Services Branch performed an audit of disbursements processed by Finance – Financial Services Branch. The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps to define the different risks associated with the various processes here at the Region. It is one tool used by Audit Services to assess where best to locate audit resources.

Audit Services randomly selected 158 disbursement transactions from a population of approximately 34,460 transactions between January 1, 2009 and July 31, 2009. The selection was performed using audit industry recognized sampling software (*ACL – Audit Command Language*). A total of 7677 disbursements coded as either PD (return to Police), PE (personal expenses), PO (provincial expenses), PY (payroll expenses), and UT (utility payments) were removed from the above mentioned population prior to sampling. These payments are either specifically excluded from the Purchasing By-law, or relate to York Regional Police. Audit Services Branch does not have a mandate to audit York Regional Police. From the sample of 158 invoices reviewed 11 purchase orders were identified for further detailed testing through Supplies & Services.

Both Accounts Payable and Supplies & Services have experienced continuing growth in activity levels. There were 136,541 payment vouchers processed in 2008. In 2009, the number processed increased over 41% to 192,916. Not including York Regional Police activity, in 2008, 595 contracts were opened and 529 purchase orders were opened by Supplies and Services. In 2009, 600 contracts and 742 purchase orders were opened. An increase in Accounts Payable volume also points to a related increase in activity within the Supplies & Services procurement function. Constantly increasing transactional volumes could result in the possibility of relaxing or breakdown of process controls, requiring management to maintain constant vigilance over this risk.

3.0 Objectives and Scope

The objectives of this engagement included ensuring that:

- Procurement documentation is in compliance with the Purchasing By-law.
- Processed disbursements are accurate, adequately supported and appropriately

authorized.

The audit objectives were accomplished through:

- Detailed testing of a sample of processed disbursements from January to July 2009.
- Interviews with appropriate personnel.
- Review of procurement files and other related documentation.

4.0 Detailed Observations and Recommendations

4.1 Opportunities to improve management controls over signing authorities, field purchase orders and accounts payable documentation

Observation

A review of 158 randomly selected disbursements processed between January 1 and June 30, 2009 highlighted the following issues:

Observation	#	%	Condition
Invoices			
Improperly approved	29	18.4%	Invoice had no approval signature, was above their limit or was signed by someone with no signing authority form.
Lacking supporting documentation	26*	16.5%	Supporting documentation was incomplete, increasing the risk of inappropriate payments.
Field Purchase Order (FPO)			
Improperly approved or used	6	3.8%	All of the six FPOs reviewed in our sample were incorrectly issued (i.e. issuer did not have authority or FPO was issued after the invoice date, or issuer also approved the invoice. Purchases may not receive an appropriate level of review and approval.

***** Note: 10 of the 26 items did not have supporting documentation attached to the invoice as it was held in the originating department; however this was not indicated on the invoice.

Recommendation

Field Purchase Order

Management should ensure that when FPOs are used they are issued at the time an order is placed, and are issued and authorized by individuals with appropriate authority.

Invoices

All invoices should clearly indicate the goods or services purchased, have appropriate supporting documentation to substantiate the disbursement, and should be properly approved. Accounts Payable should return invoices without adequate supporting documentation or approval, to the originating department. Invoices should not be processed until adequate supporting documentation is received. Audit Services will present the audit findings to the Senior Management Team to ensure that they are advised of the requirements and areas of concern.

Management Response

Field Purchase Order - Finance agrees with the recommendation and will review the requirement for the continued use of this document versus the use of a procurement card. Completion Q4 2010.

Invoices - Finance agrees with the recommendation and will be returning invoices without adequate supporting documentation or approval to the approving department and withholding payment until such is received. Completion Q2 2010.

4.2 Update and Maintenance of Notification of Signing Authority (NofSA) Forms

Observation

During our invoice testing we noted several issues with the NofSA forms.

- 7 NofSA forms were still active in the system even though the employees were no longer with the Region, some of which have been gone for several years.
- 8 forms were outdated (some as far back as 1993) and were not in a format reflecting current signing authority descriptions.
- 1 form showed signing authority for an employee who transferred to another department over 2 years ago.

Similar issues were identified in the Procurement & Accounts Payable Audit Report dated November 2006. At that time, Audit Services recommended a number of process improvements to address theses issues. Management responses at that time indicated that:

1. All Departments had been requested to update their current signing authorities for employees that had not had updates in the past two years.
2. A process would be established to isolate forms for employees who had left the Region.

Failure to update and maintain the NofSA form file could result in invoices being inappropriately approved and processed by Accounts Payable.

Recommendation

We continue to recommend that formal procedures be developed for the administration of notification of signing authority forms to address these issues. In addition, the NofSA forms should expire annually and new forms be completed effective Jan 1 of each year. This will ensure that forms are kept up to date.

Management Response

Until such time that the Position Management module in Peoplesoft can be used to assign and track signing authorities, we will continue to manually administer authorization forms. With the endorsement of a new signing authority policy, we are working with departments to update their forms. We will also consider an appropriate schedule to update forms on an ongoing basis. Completion: Q4 2010.

4.3 Payments of Accounts Policy should be updated to include the definition of supporting documentation

Observation

The Payment of Accounts Policy does not address the definition of supporting documentation for the payment of invoices. The policy was last updated July 2002.

Our detailed testing of invoices highlighted that a high percentage of invoices lacked the necessary supporting documentation attached or referenced as to where it could be found.

By not including adequate supporting documentation for invoices, the Region's payment transactions records are incomplete and are susceptible to fraud. These payments are made without evidence that the goods were received without issues as to quantity or quality, or that services rendered were satisfactory.

Recommendation

The Payment of Accounts Policy should be updated to include the requirement for supporting documentation for payment transactions, and a definition and examples of what constitutes adequate supporting documentation.

Supporting documentation is essential to the invoice as helps provide proof that:

- the correct goods were received and in good order for their intended service; and,
- the services received were satisfactory.

Management Response

We will update the policy and specify to departments what constitutes proper supporting documentation. Any invoices without supporting documentation will be returned to the originating department. Completion: Q4 2010

4.4 Cumulative purchases exceeding signing authority limits

We reviewed 20 payments made to the same vendor on the same date which suggested that the payments may have been split, and identified the following.

a) Environmental Services
A computer system ($9601.25) and software ($2,740.23) were purchased on March 26, 2009 using 2 FPOs which cumulatively exceeded the approving manager's limit of $10,000. At the time of the audit the approving manager had not completed the Public Purchasing course which is mandatory for all regional employees with signing authority. In addition, IT was not contacted regarding the purchase which contravenes the IT Acquisition Policy. Consequently the capital asset was not inventoried by IT as a regional asset.

b) Office of the CAO
Regional logo engraved ladies watches ($6,452.25) and men's watches ($6,452.25) were purchased and paid on 2 separate invoices dated May 28, 2009 which cumulatively exceeded the Director's signing authority limit of $10,000.

Recommendation

a) Environmental Services
Management should ensure that all those with signing authority have completed the Public Purchasing course. IT Services should be advised of the above noted purchase so that they can tag the computer and update the Region's inventory listing. Management should reiterate with signatories, the requirement to comply with signing authority limits and Regional policies at all times.

b) Office of the CAO
Management should reiterate with signatories, the requirement to comply with signing authority limits and Regional policies at all times.

Management Response

a) Environmental Services

All Capital Planning and Delivery branch staff with signing authority (including the approving manager in this case) have now completed the public purchasing course. IT Services has since been advised of the purchase and have tagged the asset (Tag #50670) and updated the Region's inventory listing. Management has reiterated the requirement for signatories to comply with the signing authority limits and regional policies at all times.

b) Office of the CAO

Management has reiterated the requirement for signatories to comply with signing authority limits and Regional Policies at all times.

4.5 Observations from detailed purchase order testing

Observation

Observations resulting from a review of a sample of purchase orders noted during our invoice testing are detailed below:

Accountemps

During 2009 the Region was invoiced for $76,066 for temporary help. Approximately $25,352 was charged to two purchase orders (one for the Roads Branch and one for Environmental Services), and $50,714 was not charged to a purchase order. These charges originated as follows:

Dept / Branch	Amount
C&HS – Property Support Services	$37,000
ES – Solid Waste Management	3.00
TS - Roads	10,179
FN – Financial Services	3,532
Total	$50,714

Our audit report for Accounts Payable and Procurement in 2007 highlighted a similar condition involving the same vendor. At that time, Audit Services recommended that:

Finance - Supplies & Services should investigate the feasibility of centralizing one Accountemps purchase order into one Branch, i.e. Human Resources. All Accountemps activity would be charged to this purchase order.

Management decided to address this opportunity through the Purchasing Course training, which was made mandatory for employees with purchasing authority around that time.

BT Lock & Security

In 2009 the Region spent approximately $61,000 on lock services without the use of purchase orders. Lock services were invoiced for almost $88,000 with only one purchase order issued for $26,600. The invoice amounts by department are listed below by department:

Dept / Branch	Amount

C&HS - (various branches)	$19,623.15
Corporate Services – (primarily Property Services)	21,052.82
ES – Water & Wastewater and Solid Waste Management	9,668.10
Other – Planning & Development, Transportation Services, Finance	11,016.90
Total	$61,360.97

This vendor is supplying lock services to the Region and should be considered by Supplies & Services management for a centralized contract. This would help to ensure that the service is competitively bid, the necessary management level of authorization is obtained for the level of expenses incurred, and the Region obtains a fixed price list / service level agreement.

Pinchin Environmental

A purchase order to cover expenses for mould inspection at the Newmarket Health Centre was created in February 2009 for $16,665.50 and subsequently increased in April 2009 to $20,755.50. Three invoices relating to the inspection were received in October 2008 and November 2008. Of the four invoices to be charged to the purchase order, only three have been allocated to it.

Normal procurement practises require a purchase order to be created before the actual purchase is made to help ensure an appropriate level of approval is obtained. Inadequate level of management approval as purchases are made piece meal and can quickly surpass approval limits established

Routing Services

The Region has spent approximately $32,000 with this vendor over the past two years (2008 & 2009). As per the invoices reviewed, the services rendered were the same in each year. One purchase order was issued in late 2009 to cover one invoice for approximately $11,000. The purchase order was created after the invoice was received.

Normal procurement practises require a purchase order to be created before the actual purchase is made to help ensure an appropriate level of approval is obtained.

CH2M Hill

Professional Liability insurance coverage for $5 million was not supplied for this project as stipulated in the original bid document. There is confusion as to whose responsibility it is to obtain the original insurance documents. (Insurance Risk, Supplies and Services or Legal Services)

The Region is exposed to potential liabilities due to inadequate insurance coverage.

Recommendation

Supplies and Services management should periodically (every 6 months) review payments by vendor to identify opportunities for supply/service agreements, and to ensure that competitive bids are made to ensure that the spirit of the Procurement By-law is upheld. In addition, the use of purchase orders should be encouraged and re-iterated with all departments. The use of purchase orders will alert Supplies and Services as to the extent of vendors use across the Region earlier in the process to ensure that opportunities are identified.

Insurance Risk management should request an updated insurance certificate from the vendor to incorporate the professional liability insurance requirement.

Region management review whose responsibility it is to obtain original insurance documents and communicate the decision to all staff involved in the purchasing process.

Management Response

Supplies and Services:
Supplies & Services management concurs with recommendation for periodic review of payments to identify opportunities for volume discounts and competitive bidding. The Purchasing Course available for staff training through Corporate Learning Program fully covers the need to use the Purchase Order not only as a purchasing mechanism, but also a vendor expenditure monitoring mechanism. In addition, the course content has been revised to cover the Insurance and Risk requirements of the region and responsibility for collection of said documents. Supplies & Services management will use the ADDENDUM Newsletter to reiterate this recommendation in the next publication, Q3 2010.

Director, Policy, Risk and Treasury:
Policy, Risk and Treasury agrees with the recommendation. Risk will request an updated certificate from CH2M Hill for this project to incorporate the professional liability insurance requirement. Records indicate we do have an expired certificate from CH2M Hill that includes Professional Liability for this project description but shows a different project number. Clarification of correct project number (with description) will be obtained from the Project Manager before requesting certificate. We expect to have a compliant certificate no later than Q2 2010.

Policy, Risk and Treasury agrees with the recommendation. A new procedure was launched in 2010 by Risk and Supplies and Services that outlines the department acquiring any vendor services must provide the appropriate and compliant certificate of insurance to Supplies and Services in order to open a PO. This certificate is forwarded to Risk for tracking. Currently, training and awareness is being provided through 1) Supplies and Services CLRS course and 2) individual ad-hoc department meetings that invite Risk to conduct Project/Vendor Risk transfer seminars.

4.6 Signing Authority Policy

Observation

The Region has not adopted a new signing authority policy. This opportunity was highlighted in Accounts Payable & Procurement audit reports for June 2003 and November 2006.

Finance management's responses at those times were:

- *June 2003 - A new signing authority policy will be developed in 2003 relating approval limits to individuals based on management position. Financial Services will set up a database to maintain the information on signing authorities. This will allow periodic reporting to departmental senior management to facilitate updating pursuant to the Purchasing By-law. Anticipated completion date is end of Q3 2003.*
- *November 2006 - Agreed – Management has completed a new signing authority policy that designates levels by position and not individual. This is currently being reviewed by the Commissioner of Finance.*

The current procedures in place to help ensure the policy is adhered to are administratively onerous and inefficient.

Recommendation

We continue to recommend that a new policy be adopted.

The new policy should:

- Reduce the administrative efforts required to keep delegated spending limits in compliance with the spirit of the Purchasing Policy.
- Eliminate the necessity of tracking approval limits.
- Consider the feasibility of assigning approval limits to positions rather than specifically to the person.
- Require a notification of signing authority to be kept as a signature specimen source only.

Management Response

We have developed a policy regarding signing authority based on position/level. This policy has been reviewed by numerous individuals within all Regional departments, and has been endorsed by Senior Management. The endorsement of the policy was communicated to all departments by memo in 2009, and we have been working with departments to roll out the policy. However, the policy has not been officially signed off by the CAO. We will ensure the policy is properly signed off. Completion: Q3 2010

4.7 Access to/Communication of corporate contracts

Observation

The existence of York Region corporate contracts have not been communicated to employees, nor are they listed on the intranet for ease of access by employees active in the procurement process. By not making corporate contracts common knowledge, the Region is forfeiting the opportunity to use planned spending as a negotiating tool to secure better pricing and other benefits (i.e. fixed pricing for one or more years, service delivery levels, volume rebates).

York Region has approximately 26 contracts that are shared and considered to be corporate in nature. There is only one link for a corporate contract on the intranet relating to the purchase of toner cartridges.

Recommendation

Finance Supplies & Services should update their intranet page to include:

- All Regional supply contracts
- Price lists for goods / services available through the Regional supply contracts
- Contacts on how to order the goods / services

Management Response

Finance Supplies & Services agrees with the 3 recommendations noted in the report and anticipates completion of this recommendation by Q4 2010.

4.8 Approximately 3.8% of region employees deemed to require the Public Procurement Course have yet to attend

Observation

A review of 130 Region employees with signing authority noted that 3.8%, or 5 individuals, have not yet taken the purchasing course.

The break down per department, with a comment regarding future attendance at the purchasing course, is detailed below:

Corporate Services	1	Scheduled to be taken in Sept 2010
C&HS	1	No further details provided
Transportation Services	1	Scheduled to be taken in May 2010
RapidCo	1	No further details provided
Environmental Services	1	No further details provided
Total	5	

Subsequent to the 2006 audit, the requirement to have all employees with signing authority take the procurement course was accepted by Audit Committee and was agreed to by management. The CAO communicated to all Commissioners that the purchasing course was mandatory for all employees with signing authority.

The purchasing course, developed and presented by Finance - Supplies & Services, assists in educating employees with respect to York Region's Procurement By-law. The objectives of this course include reducing the risks associated with public procurement and execution of purchasing according to Regional Council's intentions.

Recommendation

The Chief Administrative Officer reiterate with all Commissioners that all employees with signing authority attend the Public Procurement course.

An annual review for new signing authorities should be performed with the objective of noting that the new signers have attended the procurement course.

Management Response

Office of the CAO

The CAO will reiterate with all Commissioners the requirement to have anyone with signing authority attend the public procurement course by the end of Q2 2010.

Financial Services

We agree with the recommendations. Completion Q4 2010.

Supplies and Services

Supplies & Services management appreciates the support from the CAO and all Commissioners to the Purchasing Course training available through the Corporate Learning program. S & S will continue to provide monthly training sessions to all Regional staff involved in some form of purchasing.

Original signed by
Lloyd Russell
Commissioner Finance

Original signed by
Warren Marshall
Director - Financial Services

Original signed by
Stan Gal
Director Supplies & Services

Original signed by
Paul Duggan
Director Audit Services

Original signed by
Erin Mahoney
Commissioner – Environmental Services

Original signed by
Ed Hankins
Director Policy, Risk and Treasury

Original signed by
Bruce Macgregor
Chief Administrative Officer