



Audit Committee Agenda

Monday, September 26, 2022, 5:00 p.m. - 5:30 p.m.

Council Chambers - Hybrid

City of Kitchener

200 King Street W, Kitchener, ON N2G 4G7

People interested in participating in this meeting can register online using the delegation registration form at www.kitchener.ca/delegation or via email at delegation@kitchener.ca. For in-person delegations, registration can be facilitated up until the start of the meeting. For those who are interested in participating electronically, registration will be required 2 hours prior to the scheduled start of the meeting. The meeting live-stream and archived videos are available at www.kitchener.ca/watchnow.

Please refer to the delegations section on the agenda below for registration deadlines. Written comments will be circulated prior to the meeting and will form part of the public record.

Accessible formats and communication supports are available upon request. If you require assistance to take part in a city meeting or event, please call 519-741-2345 or TTY 1-866-969-9994.

Chair: Mayor B. Vrbanovic

Pages

1. Commencement

2. Delegations

Pursuant to Council's Procedural By-law, delegations are permitted to address the Committee for a maximum of five (5) minutes. Delegates who are attending in-person are permitted to register up to the start of the meeting. Those who are interested in attending virtually must register by 3:00 p.m. on September 26, 2022, in order to participate electronically.

- | | | | |
|------|--|------|---|
| 3. | Status Updates | | |
| 3.1. | 3rd Quarter 2022 Audit Status Report, CAO-2022-418, CAO-2022-418 | 30 m | 3 |
| 4. | Discussion Items | | |
| | None. | | |
| 5. | Information Items | | |
| | None. | | |
| 6. | Adjournment | | |

Dianna Saunderson
Manager of Council/Committee Services & Deputy Clerk

REPORT TO: Audit Committee

DATE OF MEETING: September 19, 2022

SUBMITTED BY: Corina Tasker, Internal Auditor, 519-741-2200 ext. 7361

PREPARED BY: Corina Tasker, Internal Auditor, 519-741-2200 ext. 7361

WARD(S) INVOLVED: All

DATE OF REPORT: August 25, 2022

REPORT NO.: CAO-2022-418

SUBJECT: 3rd Quarter 2022 Audit Status Report

RECOMMENDATION:

That report CAO-2022-418, regarding the 3rd Quarter 2022 Audit Status Report, be received for information.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide information regarding recent audits.
- There are two audits included in this report as noted in the table below, plus reporting on three confidential investigations.
- Results of the two audits were positive, with no fraud detected and meaningful process improvements made. The confidential investigations resulted in termination with cause of two employees and recovery of funds.
- There are no financial implications.
- Community engagement included this report posted to the city's website with the agenda in advance of the council / committee meeting.
- This report supports the delivery of core services.

EXECUTIVE SUMMARY:

The following report provides a summary of the Internal Audit assurance and consulting services completed during the period of January to September 2022. The table below shows the audits contained in this report.

Division / Topic	Scope
Sign Shop	Lean process review / Inventory control
Procurement	Status Update
Confidential Investigations	Theft

Consulting work is in progress on the following reviews:

- Training Documentation - process review

*** This information is available in accessible formats upon request. ***
Please call 519-741-2345 or TTY 1-866-969-9994 for assistance.

Note that some audit work has been paused due to pandemic pressures and workload in subject areas. Support was given to the Emergency Operations Centre until June 2022 and to other areas where needed instead.

The Sign Shop Lean process review examined the inventory control processes related to the manufacture of signs. Multiple process improvements were made to improve customer service, inventory and workorder accuracy. The section is well positioned to continue improving their processes.

The Procurement status update found that three of five recommendations have been completed, one is in progress, and one not started. There are no high-risk outstanding actions currently. This topic will remain in the rotation of controls and compliance audits.

Over the past year there have been three allegations of theft brought to Internal Audit for investigation. One lacked enough detail to substantiate, while the other two uncovered theft of City funds. The confidential investigations resulted in termination with cause of two employees and recovery of funds.

BACKGROUND:

The overarching goal of internal audit is ***to protect the City's assets and interests***. This includes, but is not limited to, protecting the long-term health of the organization, its financial and physical assets, its reputation, its ability to perform critical services and the safety and well-being of employees and citizens.

Internal Audit provides assurance and consulting services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards)", IIA 2012. These services are independent, objective activity designed to add value and improve and organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Assurance services provide an objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

Audit topics are selected independently by the Internal Auditor and approved by Audit Committee on an annual basis. Audit results are brought back to Audit Committee in reports such as this on a quarterly basis as completed.

REPORT:

1. Sign Shop – Lean Process Review / Inventory Control

Completed: July 26, 2022

Overview:

In 2021 a comprehensive review of Stores Inventory was completed. As part of that review both Stores staff and internal customers provided input on various topics including processes and controls. There were some comments from both Stores and Sign Shop staff and internal customers indicating that the process of inventory control between the two units could be improved.

Review Objective:

The overall goal of this review was to analyze the process and associated inventory controls related to sign shop raw materials, work in process, and finished goods to ensure inventory is being accurately recorded and billed, and the process is as efficient and effective as possible.

Scope:

The following areas are within scope for this review:

- Citizen and internal customer sign order processes
- Stores raw material procurement process
- Raw material ordering and fulfillment from Stores
- Work in progress documentation / inventory tracking
- Finished goods transfer back to inventory
- Determination of unit prices and price estimation process
- Internal and external customer satisfaction
- Criteria for when to use the sign shop vs. outsource
- Clarification of roles and responsibilities

The following areas are out of scope for this audit:

- Value for money analysis

Methodology:

The following activities were completed in this review:

- Staff training on Lean philosophy and basic tools
- Map the current in-scope processes, including:
 - Individual or team interviews to capture the step-by-step process
 - Documentation of the end-to-end process in a swim lane diagram
 - Confirmation of the process maps by both teams
- Survey of existing internal and external customers
- Identification of existing or missing control points to ensure inventory records are correct
- Identification of problems within the process, including quantifying waste
- Root cause analysis of problems
- Solution generation and map the future state process
- Implementation planning

- Facilitation of Kaizens for any quick-wins or easy to implement improvements
- Support for staff to implement longer term or more complex improvements

Sign Shop Overview:

The Sign Shop, located at the Kitchener Operations Facility within the Operations-Roads and Traffic division, is responsible for manufacturing regulatory, non-regulatory and information signage that may be needed on rights-of-way, City of Kitchener facilities and other City of Kitchener property including City vehicles. They also provide signs to Waterloo Region District School Board, City of Waterloo, the Region and other external customers upon request. All the signs along Kitchener rights-of-way, on trails, in parks, and within City facilities were made by the City of Kitchener sign shop.

The Sign Shop manufactures the following products:

- Stock signs (e.g., stop signs, yield signs, etc.)
- Custom order signs (for internal customers only)
- Name plates (for offices, cubicles, or desks)
- Vehicle graphics
- Interior wall graphics
- Decals and stickers
- Braille signage (in large lots only)

They do not, however, produce the following:

- Illuminated signs
- Braille signage (one-offs or small lots)
- Custom signage for external customers
- Sandblasted wood signage

Findings:

Through the Lean review of Sign Shop processes, three main problems were identified. A summary of these problems along with their implemented solutions and expected impacts are included below.

A. Sign Shop cost estimates and intake process

Problem: Customers want to know up front how much a sign will cost them. This requires much time and effort on part of the Sign Shop to gather necessary information to determine what the customer is looking for in order to create an estimate. Time is also spent following up on missing information such as valid cost centres to charge the work to. The time spent on estimating is not chargeable on the work order, and some projects do not proceed; in all cases this process leaves the Sign Shop bearing the cost of the time spent on estimates.

Solutions:

- Created an online intake form to gather all required information including cost centre for each sign order for internal City requests.

- Created a Sign Shop intranet page for City staff which includes the following helpful content for customers:
 - How to order a sign and link to new intake form
 - What products are available from the Sign Shop and what is out of scope
 - Pictures of material types and relative prices
 - Pictures of finished products
 - Contact information including preferred single communication channel

Expected Impacts:

The intranet page will allow customers to get an idea of what is possible and what materials they can choose from, prior to contacting the Sign Shop. The scope of work provided in-house is now well defined to make it clear when to go externally for sign orders. Showing the relative prices of materials is expected to cut down on the number of customers who ask for a formal cost estimate. Showing the order process, including the intake form, will funnel all requests through one channel eliminating the possibility of missed orders. The intake form has mandatory fields which will ensure all the necessary information is gathered up front, saving both staff and customers wasted time in following up on this information. Early feedback from customers indicates the form is easy to complete and knowing what to expect in the process is helpful.

B. Sign Shop inventory accuracy

Problem: Multiple divisions touch the work order (both electronic input and handling the paper copy) leading to missing paperwork which delays inventory relief. Sometimes the Sign Shop does not have the right number of raw materials to complete the job, due to either short-shipped orders from Stores or out of stock situations, which can be caused by the missing paperwork. At other times excess or incorrect materials are dispersed in error and then need to be returned, which causes wasted staff effort.

Solutions:

- A regular cycle count program for all stock was designed which will see all parts counted 4 times per year (rather than just once during the annual physical inventory)
- The minimum re-order point for all Sign Shop raw materials was verified and enabled in SAP
- Sign Shop staff were given access to view SAP inventory levels
- A digital solution including scanners, barcodes and Excel replaced the paper stock usage sheets
- Stock which hasn't moved in more than 5 years was assessed and declared surplus if no longer usable
- Incoming bundles of raw material will be counted by Stores and labeled with the quantity in each bundle (since supplier bundles are inconsistent)
- A template for each type of sign blank with the correct specification is located in the storage bins to check incoming materials against
- Similar sized raw materials were moved to separate shelves in Stores and clearly labeled

Expected Outcomes:

The cycle count program, minimum order quantity system flags, and Sign Shop visibility to inventory levels will help ensure accurate inventory quantities at all times and no stock outs. In addition, the new digital method of recording raw materials used in real time will eliminate the possibility of lost paperwork and the time delay to relieve inventory. Cleaning up obsolete inventory will provide more workspace and cut down on the number of parts required to be counted during cycle counts or the physical inventory count. Counting the quantity in incoming bundles of raw materials will ensure the quantity received from the vendor is correct and that the quantity dispersed to the Sign Shop is correct. Previously the quantity was assumed to be in multiples of 5 or 10 but this was not always the case. Comparing incoming stock to the verified templates will ensure all sign blanks are to the correct specifications before dispersing to the Sign Shop for use. This will save time and eliminate rework. Rearranging the location of similar stock on the shelves will reduce the likelihood of staff picking the wrong part to fulfill Sign Shop raw material orders. This will save time and eliminate rework.

C. Sign Shop work order accuracy

Problem: Work orders should contain the material, labour and equipment charges incurred to produce the job. In some cases, work orders have had additional materials added that were not used in the job (sign shop materials as well as other items). Assigning inventory relief to work orders is a manual process and subject to keying errors. In addition, some sign materials are charged out in full sheets but only a portion of the sheet is used for the job. All of these issues could mean customers are charged far more than the job is worth.

Solutions:

- A digital solution including scanners, barcodes and Excel replaced the paper stock usage sheets (as noted above)
- Stores staff provided access and training on CityWorks (work order system) to view work orders
- Sheets of material will now use the digital solution for material usage and only the amount used will be charged to the work order.

Expected Outcomes:

The digital solution, as noted previously, will allow real time inventory relief. It will eliminate data keying errors of part numbers as these are now entered using scanners and barcodes. Future improvements to this solution include changes to Cityworks to convert the workorder number to a barcode as well, to eliminate keying errors. Stores staff can now look up workorder numbers provided by Stores customers to ensure the product matches the project (e.g., not charging aggregates to a sign shop order). This will reduce the number of incorrect workorders. Customers will be charged accurately for the time and materials used to create their sign order.

Conclusion:

Several small, simple solutions have been implemented as part of this project which will have significant impacts on accuracy of inventory and workorders, as well as providing better customer service and reducing wasted effort and rework.

2. Procurement Controls – Status Update

Completed: June 27, 2022

Overview:

A comprehensive audit of the Purchasing division (now the Procurement team) was completed in November 2014. A status update was conducted in March 2020 to determine the status of the original recommendations. However, no controls or compliance testing was done at that time. Procurement controls are a standard audit topic which are part of the ongoing rotation of controls and compliance audits, and it was time in 2021 to complete such an audit. A controls audit of Procurement processes was conducted in June 2021.

Audit Objective:

All services which have undergone a service review in the past are subject to a status update, not sooner than one year following the original audit. The purpose of status updates is to hold staff accountable for addressing the audit findings and to identify any areas that have not seen significant progress. In addition, if applicable, further testing or review may also be done to test whether improvements have had the intended effect.

Scope:

This status update includes:

- A status of all recommendations from the controls testing performed in June 2021.

Status Definitions:

- **Complete** = the recommendation has been fully implemented.
- **In progress** = implementation has begun.
- **Not started** = no work has begun yet but will in the future.
- **Not required** = the recommendation either does not require any action, or it is no longer relevant, and no work will be done to implement it.

Number of original recommendations:	5
Number of recommendations complete:	3
Number of recommendations in progress:	1
Number of recommendations not started:	1
Number of recommendations not required:	0

In July 2021 an audit detection feature within SAP Concur was activated which audits all expenses by cross referencing expenses with receipts to catch duplicates, out of spend policy, suspicious merchants or attendees, and excessive spend. This enhancement will greatly mitigate risks related to employee expenses.

While Procurement Specialists do monitor business unit purchase order creation and vendor spends and will inquire when multiple purchases are made with the same vendor, a detailed vendor analysis to determine when blanket POs may be appropriate has not been completed due to resourcing constraints.

Lack of resources has also prohibited the analysis of the vendor master file to clean-up duplicate records. However, this does not pose a large risk.

Conclusion / Next Steps:

There are no serious outstanding procurement risks at this time. This topic will remain on the rotation for periodic controls audits.

3. Confidential Investigations

Internal Audit is responsible for investigating and responding to any allegations of fraud, theft or misconduct of City staff or Council which are brought forward by staff or the public.

In the past year there have been three allegations of theft or misuse of assets which have been investigated by Internal Audit. In one case there were not enough details to substantiate the theft or misuse.

The remaining two cases related to employee expense fraud and theft of deposits and petty cash, respectively. The City will not tolerate theft of any kind and therefore investigations have resulted in termination with cause of two employees and recovery of funds. A review of the related controls revealed these were isolated instances. Detective controls were in place to identify the fraud when preventative controls were overridden.

STRATEGIC PLAN ALIGNMENT:

This report supports the delivery of core services.

FINANCIAL IMPLICATIONS:

Capital Budget – The recommendation has no impact on the Capital Budget.

Operating Budget – The recommendation has no impact on the Operating Budget.

COMMUNITY ENGAGEMENT:

INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

PREVIOUS REPORTS/AUTHORITIES:

- CAO-2022-008: 2022 Internal Audit Work Plan

APPROVED BY: Dan Chapman, CAO

CAO-2022-418

3RD QUARTER AUDIT STATUS REPORT

Summary



Completed:

- ✓ Sign Shop – Lean process review / Inventory control
- ✓ Procurement Controls – status update
- ✓ 3 Confidential Investigations

In progress:

- ☐ Training documentation review

SIGN SHOP LEAN PROCESS REVIEW & INVENTORY CONTROL

Sign Shop



Overview:

The Sign Shop manufactures regulatory and non-regulatory signage for the City and external customers

Product Offerings:

- Stock Signs
- Custom order signs
- Name plates
- Vehicle graphics
- Interior wall graphics
- Decals & stickers
- Braille signage



Sign Shop Review



Audit Objective:

To analyze sign shop process and inventory controls to ensure inventory is accurately recorded and billed, and the process is efficient and effective as possible.

Scope:

- Sign shop process from order to fulfillment
- Customer satisfaction
- When to use sign shop vs. outsource

Out of Scope:

- Value for money analysis

Methodology



- Staff training on Lean
- Current state mapping
- Customer survey (internal and external)
- Identification of problems and control gaps
- Root cause analysis
- Solution generation
- Implementation planning and execution

Findings



- 3 main problem areas identified:
 - Cost estimates and intake process
 - Inventory accuracy
 - Work order accuracy

1. Cost Estimates / Intake Process



Problem:

- Customers want to know up front how much the custom sign will cost
- Time and effort required to gather requirements and follow up on valid cost centres to charge
- Estimation time is not chargeable to the customer – Sign Shop must bear this cost

Solutions



- Online intake form with mandatory fields
- Sign Shop intranet page

Signs

How long will this sign be used? *

☐ Temporary (less than 2 yrs.) ☐ Permanent (more than 2 yrs.)

Purpose of the sign *

Quantity needed *

Size * (height x width)

Unit of measurement

☐ Inches ☐ Centimeters

How many sides is the sign? *

☐ 1 ☐ 2

When do you require the sign to be ready to install? *

Additional comments

Sign Shop

Enter content here.

[WHAT WE DO](#) [HOW WE CAN HELP](#) [WHO TO CONTACT](#) [HOW TO ORDER](#)

Order Process:

Order Forms

To order a custom sign or employee name plates (desk or wall mount), complete and submit this intake form.

To order stock signs (e.g. stop signs, yield signs, etc), email StoresOrder@kitchener.ca. [Click here to see a list of stock.](#)

Sign Shop staff will contact you to confirm details before proceeding with the order.

Expected Impacts



- Customers can self-serve information such as sign ideas, materials, relative cost, when to outsource
- Decrease in cost estimates requested
- No missing information or cost centres
- Saves both staff and customers time
- No missing or delayed orders

2. Sign Shop Inventory Accuracy



Problem:

- Multiple divisions touch the work order which leads to missing paperwork and delay in inventory relief
- Incorrect raw materials due to:
 - Stock outs related to missing paperwork
 - Short-shipped orders from Stores or supplier
 - Incorrect quantity or material dispersed from Stores

Solutions

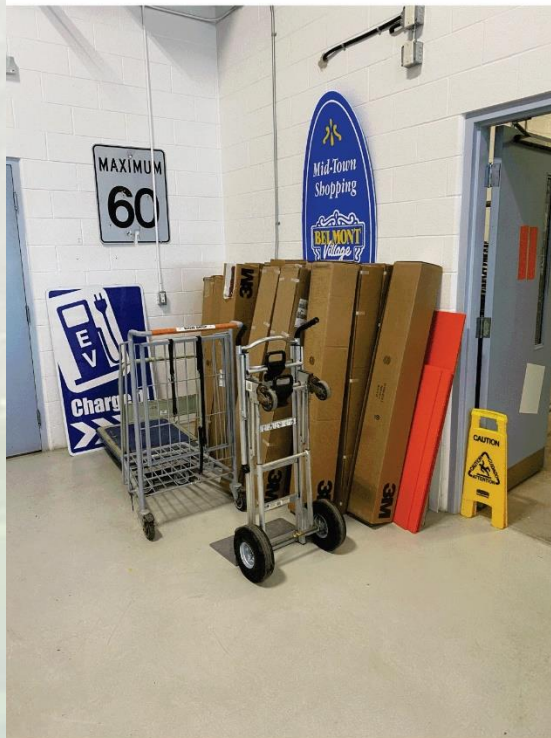
- Regular cycle count program
- Minimum re-order point set in SAP
- Sign Shop given access to view SAP inventory
- Digital solution for stock usage including scanners, barcodes and Excel

	A	B	C	D	E	F	G	K	L	M	N	O	P	Q
	DATE & TIME	EMPLO YEE #	STOCK #	QTY	WORK ORDER #	DESCRIPTION	UoM	SAP UPDATED?	COMMENTS					
1	Jul/26/2022 2:10 PM	13657	7502215	90	344963	8528 UV CLEAR OVERLAMINATE 54"x150'	FT2	issued						
177	Jul/26/2022 2:10 PM	13657	7502318	35	344963	ROLAND INK CARTRIDGE 440 CCM/ CART	CCM	issued						
178	Jul/26/2022 2:10 PM	13657	7502310	15	344916	3M I J3650-114 CLEAR CAST FILM, 54"x150	FT2	issued	Roll of clear cast film finished. 3 full rolls remain @ this point	Inventory shows 2309 sf (off by 284 sf) adjusted to 2025				
179	Jul/26/2022 2:11 PM	13657	7502215	15	344916	8528 UV CLEAR OVERLAMINATE 54"x150'	FT2	issued						
180	Jul/26/2022 2:11 PM	13657	7502318	6	344916	ROLAND INK CARTRIDGE 440 CCM/ CART	CCM	issued						
181	Jul/27/2022 2:13 PM	13657	7501509	10	342056	3M 7725-12 SCOTCH CAL BLACK, 48"x 150'	FT							
182	Jul/27/2022 2:14 PM	13657	7501455	4	342056	3M 1172, TRANSPARENT RED, 48"x150'	FT2							
183	Jul/27/2022 2:14 PM	13657	7500222	7	342056	24"x300' TRANSFER TAPE, CONFORM SERIES	FT							
184														
185														
186														

Solutions

- Stock clean-up of parts >5 years old
- Racking for better visibility of stock

Before



After



Solutions

- Specification templates created for each type



Solutions

- Incoming bundles counted and labeled
- Reorganized and labeled storage shelves

Before



After



Expected Impacts



- No missing paperwork or delayed inventory relief
- Accurate inventory levels at all times and no stock-outs
- More space and decreased number of parts to count
- Signs meet specifications
- Correct quantity and part numbers dispersed
- Save time and eliminate rework

3. Work order Accuracy



Problem:

- Work orders found to have incorrect materials charged
- Manual process subject to keying errors
- Some product charged out in full sheets vs. what was used
- Over or under charge the customer

Solutions



- Digital solution for stock usage
- Cityworks access for Stores staff
- Use digital solution for sheet material and only charge out what material was used

Expected Impacts



- No keying errors on parts
- Ability to look up workorders to ensure product matches the project
- Reduction in incorrect workorders
- Customers are accurately charged for their signs

Conclusion



- Simple solutions with large impacts
 - Improved accuracy of inventory and workorders
 - Improved customer service
 - Reduction in waste and rework
- Sustainment plan to ensure completion of actions and continued focus on improvement

PROCUREMENT CONTROLS

Status Update



Status Update Objective:

To hold staff accountable for addressing audit findings and identify areas without significant progress.

Original Audit Objective:

To ensure that procurement controls are adequate to safeguard from theft.

Status of Recommendations



Status	Number of Recommendations
Total recommendations	5
Complete	3
In progress	1
Not started	1
Not required	0

- Audit detection feature activated in SAP Concur
- Lack of resources for vendor and master file analysis

CONFIDENTIAL INVESTIGATIONS

Confidential Investigations



Audit Objective:

To investigate and respond to any allegation of fraud, theft or misconduct by City staff or Council.

3 Cases:

- 1 case – not enough details to substantiate
- 2 cases – termination with cause and recovery of funds
 - Isolated instances
 - Detective controls in place when preventative controls overridden