

Staff Report

Chief Administrator's Office



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REPORT TO: Audit Committee

DATE OF MEETING: June 24, 2024

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: June 13, 2024

REPORT NO.: CAO-2024-166

SUBJECT: 2nd Quarter Audit Status Report

RECOMMENDATION:
For information.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide information regarding recent audits.
- There are four audits included in this report: 1) External Billable Work Orders; 2) Parking and Mileage Expenses status report; 3) Underground Locates status report; and 4) Technology Field Inventory status report.
- Results of the audits were positive, with no fraud detected.
- 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 or underway during the period of January to June 2024.

Work in-progress:

Assurance work is in progress on the following topics:

- Hiring Transparency and Nepotism - compliance

Consulting work is in progress on the following reviews:

- Contractor Management – gap analysis review
- Bylaw – reorganization assistance
- Security – capacity and service level review

Work completed:

The table below shows the audits contained in this report.

| Division / Topic | Scope |
|-------------------------------|---------------------|
| External Billable Work Orders | Lean Process Review |
| Parking and Mileage Expenses | Status Report |
| Underground Locates | Status Report |
| Technology Field Inventory | Status Report |

The Lean process review of external billable work orders found several areas for improvement. Actions taken or in progress will help to ensure accurate, timely billing to customers and less rework and frustration for staff.

The status update of employee parking and mileage expenses found that all recommendations have been implemented or are no longer required. It will remain on the rotating list of compliance audits.

The status update of the underground locates review found that the City has not incurred any fines yet, since the Province postponed activation of the penalties until May 2024. The Gas and Water and Sewer locates are 100% in compliance with legislated time frames as of mid-June. It is anticipated that all locates will remain in compliance moving forward.

The status update of the technology field inventory found that work is underway to implement a new asset management module which will ensure more accurate tracking of assets in future.

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 include independent, objective activities/reviews designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- **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 and updates are brought back to Audit Committee in reports such as this on a quarterly basis as completed.

REPORT:

1. External Billable Work Orders – Lean Process Review

Completed: April 2, 2024

Background:

This consulting engagement was requested by Support Services to address issues in the external billable workorder intake process which prevents Accounts Receivable (Revenue division) from billing external customers for work performed by City staff. Previous work including process mapping, problem identification, and recommendations had already been completed by some of the stakeholders. One of the recommendations was to complete a more fulsome review of the intake process. This review fulfilled that recommendation.

Review Objective:

The overall goal of this review was to examine the external billable work order intake process to find the most efficient, effective, and accurate intake method, in order to facilitate billing in latter phases of the overall process.

Scope:

The following areas were within scope for this review:

- Lean process review of external billable work orders intake process, from service request creation to work order completion
- Define divisional accountabilities

The following areas were out of scope for this audit:

- System integration / matching process
- Organizational structure review of Support Services
- Internal work orders

Methodology:

The following activities were completed as part of this review:

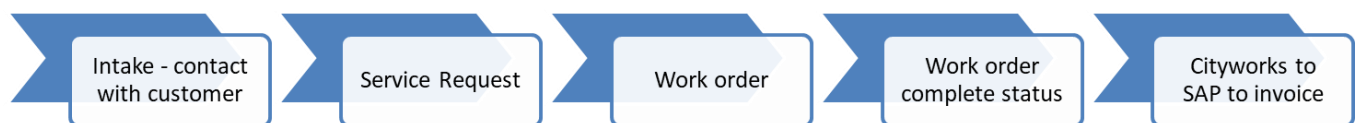
- Internal stakeholder interviews
- Document review (report on previous work, examples, process maps)
- Data collection
- Current state process mapping and problem identification
- Root cause analysis
- Solution generation and future state process mapping
- Implementation planning and Kaizen event
- Project close-out and lessons learned

Macro-level Process:

When City crews perform any kind of work, from repairing roads to trimming grass, a work order is created in the Cityworks system which allows the labour, equipment, and material costs to be allocated to the task. Most of the work performed is considered internal billable, meaning that it is funded either through the tax-base or through utility rates.

There are some types of work, however, for which we bill the end customer directly. These include things like sewer blockages on private property, gas or watermain hits caused by developers, or road closures required for private events or development activities, etc. The charges for these external billables are sometimes a flat fee and other times are based on labour and material costs. However, regardless of the method, the fees are all laid out in the fees and charges schedule which is approved by Council each year.

While each external billable service type has a slightly different process, the overall macro-level process is the same for all types:



The process starts with the initial contact with the customer. At this initial stage information about the work required is gathered and input into a service request in Cityworks including what address the work is to occur at and what needs to be done.

A workorder is then created, also in Cityworks, and linked to the service request which details the work actually performed including labour and equipment hours, and any materials used.

Once the work is complete and all costs finalized, the work order status can be changed to “Complete” which then triggers a transfer over to SAP so that invoicing can be completed. For this to happen, the service request and work order must have an external billable flag marked in three different places, a correct and complete owner name, a correct and complete billing address (which may be different from the service address), a customer number that matches a customer number in SAP and the amount billable must be greater than \$0. If all these things happen, then the invoice will flow smoothly.

Problems and Solutions:

The following six problems were identified by the project team consisting of internal stakeholders. Root cause analysis was performed to determine why the problems were happening. The team then brainstormed and prioritized the solutions listed below to address the root causes.

| Problem or Issue | Solution(s) |
|--|--|
| There was no trigger to indicate to Support Services when a work order is ready to bill. This resulted in time spent following up with business units multiple times until all work was complete and the work order could be closed. | <p>Business rules established about when certain types of billables can be billed, including some that can be billed immediately and do not need to wait since they are a flat fee and not based on labour.</p> <p>Programming changes to Cityworks to de-couple labour charges from billing, allowing interim and flat fee billings to occur.</p> |
| There is often missing or incorrect information on the service request and work order, causing rework for Support Services when they attempt to bill. | <p>Roles and responsibilities established to identify who is responsible for gathering each piece of information.</p> <p>Programming changes to Cityworks to create one single screen with billing information and mandatory fields.</p> <p>Training on the new screen and how to efficiently search for the correct customer number.</p> |
| Each service address may have multiple owners, tenants, or businesses so it is unclear which customer number to choose when creating the billing. This causes delay and rework. | Training on how to more efficiently search for the correct customer number. |
| Some work orders are not reviewed in a timely manner and not initially set to billable. This causes them to automatically close without billing. Which means rework to re-open the work order so that it can be billed. | Certain types of billables which typically are billable will be set to "billable by default", meaning the user does not need to manually check off the billable flag in Cityworks, which prevents them from automatically closing. |
| Gas service requests that come through an online portal do not always automatically transfer to Cityworks. This currently requires a manual process to verify each transaction. | A control report will show any mismatch between records leaving the portal and entering Cityworks so that it is easy to tell if any records are missing. |
| If there are billing issues or questions such as incorrect addresses or names, Revenue staff are uncertain who to contact. | <p>Roles and responsibilities cheat sheet shared with Revenue staff for general positions / areas responsible for each type of billable.</p> <p>New contact field added to the new billing screen in Cityworks which will contain the specific name of the key contact for each work order.</p> |

A Kaizen (i.e., improvement) event was held with the stakeholders to provide input on a mock-up of the new Cityworks billing screen. Work is underway to make the programming changes to Cityworks. Training and process documentation will follow.

Future State Goals:

- More timely billing of customers and collection of revenue (i.e., ensure customers do not receive an invoice several months or years after the work is complete).
- Ensure all customers are billed, eliminating the potential for lost revenue for the City.
- Less rework for Support Services and Revenue staff.
- More accurate billing.

Accountability:

A project close-out meeting was held with stakeholders and the remaining action items were assigned to the relevant parties. Status updates will be provided to the Internal Auditor at the 1, 3, 6, and 12 month marks to ensure the project stays on track. A formal status update will be provided to Audit Committee at the 12-month mark.

2. Parking and Mileage Expenses – Status Update

Completed: March 28, 2024

Overview:

Prior to January 1, 2024, the City reimbursed staff for mileage and parking expenses incurred for business purposes, subject to several rules and conditions. A compliance audit of parking and mileage claims was part of the rotating schedule of compliance audits. The goal of the original audit was to test compliance with the parking and mileage reimbursement policy. The results of this audit showed a few minor errors in mileage and parking claims that can be rectified with additional education of staff and management. However, they do not show pervasive issues that are cause for concern.

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.

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: | 3 |
| Number of recommendations complete: | 1 |
| Number of recommendations in progress: | 0 |
| Number of recommendations not started: | 0 |
| Number of recommendations not required: | 2 |

As of January 1, 2024, the City has implemented paid parking for all staff. Two of the recommendations related to parking reimbursement are no longer required. The third recommendation was related to periodically reminding staff and approvers of the mileage reimbursement rules. This has been accomplished through email reminders and is being incorporated into the Expense 101 training.

Conclusion / Next Steps:

Mileage claims will remain on the list of rotating assurance audits.

3. Underground Locates – Status Update

Completed: March 15, 2024

Overview:

In 2022, the Province of Ontario introduced new legislation, Bill 93, Getting Ontario Connected Act, 2022. This new legislation increases the City's risk exposure as it relates to accuracy and timeliness of providing utility locates. Utility owners such as the City are now liable for both Administrative Penalties (administered by Ontario One Call) and financial claims made by excavators because of late or incorrect locates.

The goal of the original review was to examine locator services provided by Engineering Construction and Gas & Water divisions to find the most efficient and effective method of providing these services while being in compliance with Bill 93 and mitigating the risk of significant financial penalties or third-party excavator claims.

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.

Status Definitions:

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| | |
|--|---------------------------------------|
| Number of original recommendations: | 24 |
| Number of recommendations complete: | 10 (+4 complete for Gas & Water only) |
| Number of recommendations in progress: | 5 (+4 in progress for Sewers only) |
| Number of recommendations not started: | 4 |
| Number of recommendations not required: | 1 |

The outcomes of the review saw the approval of seven new FTE's, one seasonal staff member, and additional funding for third party locate services to support peak periods. Five of those positions have been filled but it is proving difficult to find qualified candidates to fill the remaining Gas & Water positions. The seasonal position was not filled, as capacity was identified in an existing role.

The City has not incurred any fines yet, since the Province postponed activation of administrative penalties until May 2024. In addition, the added capacity has resulted in 99% and 100% compliance in May and June, respectively.

Process improvements including utilizing locate software to manage tickets more effectively and training provided to staff will be implemented for this construction season. It is anticipated that all locates will remain in compliance in 2024 and beyond.

Conclusion / Next Steps:

Management will be monitoring compliance rates closely throughout the 2024 construction season and will act to shift resources and employ the third party locate service provider where necessary to ensure compliance. Internal Audit will review compliance rates at the end of 2024 to determine if further action is required.

4. Technology Field Inventory – Status Update

Completed: May 2, 2024

Overview:

In February 2023 a full physical inventory of technology assets deployed in the field was done to verify the existence of assets for budgeting purposes and to assess whether field assets are at risk of theft or loss. The results of this audit showed many discrepancies in the asset database that have accumulated over many years. There was no way to tell if missing assets were stolen or simply returned for replacement and not updated in the database. Therefore, it was impossible to comment on the security of TIS assets. However, no divisions seemed worried that staff had taken assets.

A renewed focus by both division management and TIS on ensuring the database is up to date, and rotating cycle counts should ensure a more accurate picture of the assets on hand. Subsequent audits will provide a better picture of the security of the assets as there should be significantly fewer missing assets.

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.

Status Definitions:

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| | |
|--|---|
| Number of original recommendations: | 5 |
| Number of recommendations complete: | 1 |
| Number of recommendations in progress: | 2 |
| Number of recommendations not started: | 2 |
| Number of recommendations not required: | 0 |

Staff are in the process of implementing an asset management module and process to keep records up to date. They will also be using the updated list of assets to inform the 2025 budget process to appropriately charge divisions for the assets that they have. They have not shared the updated asset lists with divisions or implemented rotating cycle counts yet as they are waiting for the asset management module implementation to be complete.

They hope to be able to increase the contributions to the reserve fund for 2025 by including technology assets that have not been updated by financial planning in recent years.

Secondly, they will be able to plan their technology refresh cycles for laptops, desktops and monitors with more accurate asset information and improve customer service to their clients by ensuring their assets are up to date and reliable.

Conclusion / Next Steps:

A full physical inventory of field assets will be done in 2028 as part of the ongoing rotating list of assurance audits performed by Internal Audit.

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-2023-527 2024 Internal Audit Work Plan

APPROVED BY: Dan Chapman, CAO

ATTACHMENTS: None