

Staff Report

Chief Administrator's Office



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REPORT TO: Audit Committee

DATE OF MEETING: December 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: December 9, 2022

REPORT NO.: CAO-2022-500

SUBJECT: 4th Quarter 2022 Audit Status Report

RECOMMENDATION:

That report CAO-2022-500, regarding the 4th 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 three audits included in this report as noted in the table below.
- Results of the audits were positive, with no fraud detected. However, opportunities for improvement have been identified.
- 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 October to December 2022. The table below shows the audits contained in this report.

Division / Topic	Scope
Physical Inventory	Count Verification
Market – Alcohol Inventory	Controls
Pandemic Debrief	After-Action Review

Assurance work is in progress on the following topics:

- Parking and Mileage Reimbursement compliance
- Technology Field Assets physical inventory
- Inventory audit status update
- Underground Locate Service organizational structure and capacity analysis

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

Consulting work is in progress on the following reviews:

- Training Documentation - process review

The physical inventory count verification found six variances, which resulted in a \$5,621.94 write-up. Total adjustments for the year were \$576,333 write-down, driven by large write downs in road salt and brine due to measurement errors and inconsistent reporting of usage. Overall, excluding the known issues with salt and brine, the physical inventory process is in control and no concerns were identified.

The Market Alcohol controls review found that while current staff are tracking alcohol inventory at the event level, there are still control gaps that would allow theft of alcohol by staff or vendors and theft of cash by staff. Implementing an ongoing inventory tracking sheet with supporting checks and balances will alleviate these risks.

Staff and Council were asked to reflect on the City's response to the pandemic and provide input on what worked well, what were the challenges, and what could be improved going forward. Responses are summarized in this report. Management will work to evaluate and prioritize recommendations for improvement.

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

REPORT:

1. Physical Inventory – Count Verification

Completed: October 29, 2022

Overview

The Procurement-Stores section of the Financial Operations division is responsible for the receipt, storage, and disbursement of a variety of physical inventory used in City operations. This inventory is stored within the Stores warehouse within the Kitchener Operations Facility (KOF), as well as some larger items being stored outside in the yard. (e.g., large pipe, catch basins, aggregates, salt)

Stores staff perform an annual inventory of all parts and materials to ensure that financial records match the amounts on hand. Internal audit then counts a sample of parts to provide assurance that staff counts are accurate. This is a standard audit activity.

In addition, staff make adjustments to inventory balances within SAP throughout the year and during the physical inventory count to restore the financial balance to equal the quantity on hand. An analysis of the total adjustments for the year is also included below.

Definitions

Controllable stock - stock which the Stores staff have direct control over with regards to purchases and usage. Located within the warehouse.

Floor-to-sheet audit – randomly selecting parts in the warehouse, counting them, and comparing the quantity to what is in the financial system (SAP).

Sheet-to-floor audit – pre-selecting parts based on unit value or total value, counting them, and comparing the quantity to what is in SAP. This includes both warehouse and outdoor inventory.

Shrinkage rate – the percentage of total inventory purchases that are written-down or lost due to factors such as theft, error, fraud, or damage.

Uncontrollable stock - stock which is located in the KOF yard which are not under direct supervision by the Stores division.

Write-down - the quantity on hand was less than what was recorded in SAP and therefore the financial records were decreased to match the physical quantity. Usually occurs when inventory is used without updating SAP.

Write-up – the quantity on hand was more than what was recorded in SAP and therefore the financial records were increased to match the physical quantity. Usually occurs due to keying errors when setting up or relieving inventory, or when the wrong unit of measure was used (e.g., number of cartons counted instead of individual parts).

Audit Process and Findings

Standard floor-to-sheet and sheet-to-floor audits were done to confirm the physical quantity of parts on hand compared to what staff had counted. The audit covered 22% of the total value of inventory. The sheet-to-floor audits covered the top 25 unit values and top 25 total values. The floor-to-sheet audits consisted of 20 random shelf locations.

Six variances, which equates to 9% of the sample, were found through this verification process which resulted in a \$5,621.94 write-up. This is considered a very low value of variances found through the audit process and is consistent with prior years. It represents 0.2% of total inventory on hand.

Total Adjustments

In addition to reporting on the variances found through the audit process during the physical inventory, the total adjustments for the year are also reported below. These numbers include the adjustments made by staff during the physical inventory and the \$5,621 write-up driven by the internal audit verification, as well as all other adjustments made throughout the year.

The purpose of this analysis is to identify any material groups or part numbers that have large or unusual adjustments to ensure the root cause has been identified and actions put in place to eliminate or reduce adjustments in the future.

(Note that positive numbers represent write-ups and negative numbers represent write-downs.)

Year	2020	2021	2022
Controllable stock write-up	\$63,216	\$15,762	\$83,469
Uncontrollable stock write-up (down)	\$4,051	(\$201,117)	(\$659,803)
Total write-up (down)	\$65,803	(\$141,271)	(\$576,333)

In 2022 the total adjustments for the year (Nov.15/21 to Nov.14/22) were \$576,333 write-down. This is a larger than usual write-down. Usually the total adjustments are a write-down between \$50,000 - \$200,000 related to adjustments to aggregates in the yard. 2020 was an anomaly due to the aggregates not being adjusted and written off at all.

The 2022 total write-down represents 3.6% of the total inventory purchases for the year of \$16 million. Industry standards indicate that up to 2.5% is an acceptable shrinkage rate. The ending inventory balance was \$3,329,771.

Controllable Stock Adjustments

Of the 2022 adjustments, \$83,469 write-up was from controllable stock. In 2022 the write-up was attributable to multiple material groups and there was not a large write-up in any specific part number. Write-ups are most often due to errors in issuing out stock, such as using the wrong unit of measure causing too much inventory to be relieved. Several parts had their unit of measure switched from imperial to metric measurements this year which could be driving this higher than usual number of errors made. The write-up adjustment then restores the inventory value to the correct amount.

As noted earlier this year, Stores is in the process of implementing regular cycle counts which see each high moving part number counted at least three times per year, including the full physical inventory. This will allow variances to be identified earlier and investigated to determine root cause of the error, allowing real-time corrections to be made and eliminating the need to write parts up or down.

Uncontrollable Stock Adjustments

The remaining \$659,803 of write-down is related to stock which is outside in the KOF yard which are not under direct supervision by Stores staff. It is impractical to have dedicated staff monitoring the outdoor inventory on a 24/7 basis and therefore there is a reliance on staff to inform Stores when they take inventory from the yard. However, this often does not happen.

The recent aggregates review has resulted in a few low-dollar value aggregates that are used by one operating area only to be removed from inventory and charged directly to the operating area when purchased, which creates many efficiencies in the process and reduces the need for the year end write off/variances for these particular aggregates.

For the remaining aggregates, work is planned to install signage, provide training, and instructions for staff to better estimate the quantities they are taking based on equipment volume (i.e. one load of x material = y tonnes). This way staff can more easily account for material used on the workorder. This will also reduce the number of write-downs related to aggregates when this is implemented. It is currently delayed due to resourcing constraints.

The majority of this year's write-down can be traced to two specific parts:

- 1) **Geomelt Brine - \$120K write-down.** During the physical inventory it was found that this item has not ever been physically counted in the past and the amount submitted for usage is an estimate only. This adjustment brings the value in line with the actual quantity on hand and is made up of several years of variances. A decision has been made to remove geomelt from inventory entirely and expense it directly when purchased.
- 2) **Road salt - \$504K write-down.** In the past the ending inventory balance of salt has been estimated by measuring the size of the pile and calculating a rough estimate of the volume of the cone shape. Any variance between this estimate and the quantity recorded in SAP was charged out directly to the winter maintenance budget (instead of being written down). Variances are attributed to communication challenges between INS (Roads and Traffic) and Stores, specific to usage timing and quantities.

It was recently discovered that for the past several years there has been a flaw in the calculation method and the ending balances have not been realistic in relation to the maximum capacity of the salt dome. A reconciliation was done when the quantity was low and able to be weighed and measured. This has resulted in the one-time extra-large write-down of \$504K this year which will hit the winter maintenance budget and show as a budget variance.

In future, staff are working to develop more accurate ways of measuring the salt volume to avoid large write-offs. This includes ensuring that the SAP volume is never higher than the maximum capacity of the salt dome.

It was also discovered that for the past few years that salt variances found during the physical inventory were charged directly to the winter maintenance budget rather than being included in the inventory write-downs. It was recommended by the City's external auditors that these adjustments be treated as write-downs in the future for consistency with other parts. In the end the amount still gets charged to the winter maintenance budget, however, it will now get captured in the inventory adjustments reported through internal audit.

The remaining write-down in uncontrollable stock of \$35,803 can be attributed to multiple other part numbers.

Conclusion

Overall, excluding the known issues with salt and brine, the physical inventory process is in control and no concerns were identified. The adjustments to controllable stock are small write-ups. Uncontrollable stock adjustments are typical and are expected given the current uncontrolled environment. Improvements to measurement techniques and the implementation of cycle counts will help reduce the amount of inventory adjustments.

2. Market – Alcohol Control

Completed: September 21, 2022

Background

In 2013 an audit of the Market's inventory control for alcohol was done. At that time, it was found that there were no controls in place to ensure that all alcohol that was purchased on behalf of the Market, for programs such as cooking classes and events, were accounted for. There was no oversight of expenses or physical control of product, making the process vulnerable to theft from both the public and staff. Recommendations were made at the time to implement a tracking sheet and reconciliation process.

Market alcohol control is now part of the list of rotating controls and compliance audits, and it is now time to perform a check of controls. This is particularly important given the turnover in staff to ensure controls are still in place.

Audit Objective

The overall goal of this audit is to review and confirm adequate controls are in place to ensure that alcohol purchases for the Market are used for their intended purpose and not taken by staff or customers.

Note that this audit is driven by the goal of ensuring adequate controls are in place regardless of the staff performing the work and does not reflect on the trustworthiness of individual employees.

Scope and Methodology

The following activities were completed as part of this review:

- Documentation of the end-to-end process in a swim lane diagram
- Tour of Market kitchen and storage areas
- Physical inventory count
- Identification of existing or missing control points to ensure inventory records are correct

Findings

Due to turnover in staff the recommended tracking process from 2013 was not being used. New staff have created an event tracking process, however, there were still several control gaps including lack of physical control of the inventory and lack of reconciliation of purchases and cash by management.

Staff did indicate that work was in progress to build a locked area for the inventory, and they would like to also implement a point-of-sale system to handle sales at events. This would provide better control over receipts and allow for easy reconciliation of cash.

Recommendations

In addition to the improvements in progress, several recommendations were made. These included detailed instructions on how to:

- Confirm, track, and reconcile incoming purchases of alcohol.
- Event day tracking and reconciliation of opening balances, uses during the event, closing balance, and sales/deposits.
- Periodic inventory counts

Conclusion

While current staff are tracking alcohol inventory at the event level, there are still control gaps that would allow theft of alcohol by staff or vendors and theft of cash by staff. Implementing an ongoing inventory tracking sheet with supporting checks and balances will alleviate these risks.

A status report will be completed 1 year from the date of this report to ensure recommendations have been implemented and controls are adequate.

3. Pandemic After-Action Review

Completed: July 5, 2022 (Statistics updated November 2, 2022)

Overview

An after-action review is an opportunity to identify and strengthen successful processes and note lessons that need to be applied in emergency management plans and future emergency responses. A successful after-action review is intended to contribute to a more robust emergency management program by providing evidence for potential improvements, better resource allocation, and building furthering connections with partner agencies.

A formal after-action review template was provided by the Province of Ontario for all municipalities to complete. The City of Kitchener has completed the template and shared the recommendations with staff and the Region of Waterloo. This is a summary of the content of that document.

Definitions

CEMC – Community Emergency Management Coordinator; staff responsible for the City's emergency management program

CLT – Corporate Leadership Team, consisting of the CAO and department heads, responsible for non-pandemic business decisions

EOCMT – emergency operations centre management team

EOC – emergency operations centre which includes the EOCMT and sections responsible for communications, planning, finance, operations, and logistics

IMS – Incident Management System; a standardized methodology and approach to managing and responding to any size incident, emergency, or pandemic

PPE – personal protective equipment

Incident Type: Infectious Disease

The COVID-19 pandemic, also known as the coronavirus pandemic, is an ongoing global pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

Events:

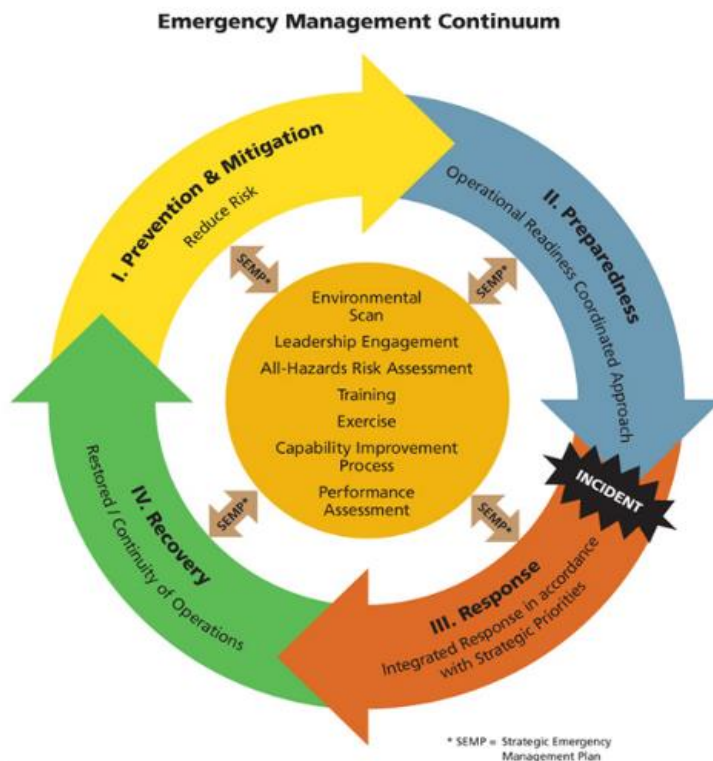
The City of Kitchener's response to the COVID-19 Pandemic commenced in January 2020 by asking all City of Kitchener Departments/Divisions to update their respective Divisional Action Plans through the Business Continuity process. A review and updated inventory of our Personal Protective Equipment (e.g., N95 masks, sterile gloves, and gowns) was also initiated by the Kitchener Fire Department staff. Surveillance began to capture information regarding the spread of the virus on a global scale and regular updates were provided to the EOCMT through weekly situational reports.

On March 6th 2020, the City of Kitchener activated their Emergency Operations Centre Management Team (EOCMT) to ready the municipality for the response to the evolving Pandemic.

On March 17th 2020, the Province of Ontario declared a Provincial Health Emergency and on Wednesday, March 25th 2020, The Region of Waterloo, the City of Kitchener and all six of the other local municipalities declared local Emergencies as well. The Federal Government of Canada did not declare a Federal emergency and concentrated on providing Public Health guidance, financial assistance to Canadian citizens and businesses through various financial relief initiatives.

The EOCMT Planning Section lead the recovery planning. Throughout the response and recovery phases of this pandemic, the City of Kitchener's EOCMT and supporting staff worked closely with the other local municipalities and the Region of Waterloo. The Region of Waterloo initiated their Regional Pandemic Control Group on March 11th 2020.

To help in the response and recovery efforts of this emergency, the pillars of emergency management were leveraged - Mitigation, Preparedness, Response and Recovery. These pillars were integrated into our EOCMT throughout the past two years and can be considered from the perspective of the emergency management continuum diagram below (*Public Safety Canada*). Since the introduction of vaccines in December 2020, City staff and community partners have responded and moved in and out of the response and recovery phases, under several different provincial frameworks, several times due to new Variants of Concerns (VOC) such as the Delta and Omicron.



Taking advice from local Public Health at various points in time, the City implemented multiple safety measures to protect staff and the public including the following:

- Ability to work from home when required by the Province for some roles
- Physical distancing of 2 metres in all locations and equipment
- Directional arrows / restrictions on flow of movement and other signage
- Limiting access to certain City facilities throughout the pandemic
- Cancelling public facing programs at various points in the pandemic
- PPE including masking, goggles / eye protection, and plexi-glass barriers
- Daily active screening for staff, contractors, and within private residences
- Public screening, contact tracing, and masking when required by the province
- Vaccination policy and rapid antigen testing program
- Limited capacity when required by the province
- More frequent and deep cleaning of facilities, vehicles, and shared equipment

- COVID Safety Training and Safety Talks
- Case and Contact Management
- Workplace Safety and Insurance Board/Ministry of Labour Occupational Illness Reporting
- Improved facility ventilation

The province entered the final exit step in their “Roadmap to Reopen” on March 1, 2022, which lifts the majority of public health restrictions. On March 25, 2022, the City of Kitchener and local area municipalities rescinded their emergency declarations. However, the City retained all health and safety measures for staff until May 28, 2022.

Termination of this current emergency does not preclude the chances of new variants of concern emerging, and thus reverting our municipality back into a pandemic response and possible new emergency declaration. It does, however, signal our ability to move towards the concept of a “new normal”.

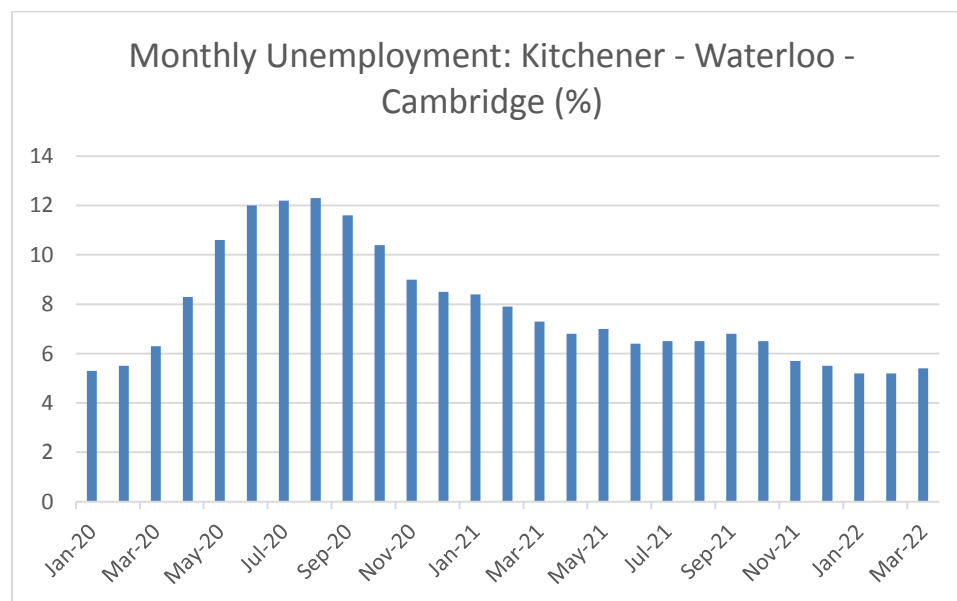
This after-action review was the final step prior to demobilizing the current EOC structure.

Impacts:

As of November 2, 2022 the Region of Waterloo has seen 52,596 cases of COVID-19, which equates to roughly 8% of the population contracting the virus. These numbers are underestimated, however, due to a change in testing and reporting protocols. There have been 484 deaths in the Region due to the virus.

Currently the active Regional caseload sits at 345 people, with 63 patients in hospital, 7 of which are in Intensive Care Units.

In addition to citizen health, the pandemic has also had negative effects on businesses and employees in certain sectors throughout the Region due to multiple lock-downs during the peaks of various waves and stringent mandates such as masking and vaccination policies. Unemployment rates spiked early in the pandemic but have since leveled off.



Reflections:

Staff and Council were asked to reflect on the City's response to the pandemic and provide input on what worked well, what were the challenges, and what could be improved going forward. Responses were summarized and reviewed by the Internal Auditor, CEMC and two alternate CEMC's. A sample of those reflections is included below.

Strengths:

Activation and Notification Process

- Very quick mobilization of EOCMT and sections prior to the WHO declaration

Organizational Structure

- Utilizing the IMS structure which staff were familiar with from previous training was comforting and provided a solid foundation for decision making
- It also ensured key areas were covered off (continuity of operations, future planning and monitoring of provincial directives/regulations, logistics and HR directives, health and safety, and ensuring we had financial support and monitoring)

Decision Making

- Strong leadership and direction coming from EOCMT
- Collaborative decision making and communication across the region to bring a consistent approach to citizens across local municipalities
- Advocacy of our political leaders to the province to have key areas altered to help expedite our response and support of local businesses and citizens

Facility

- Willingness and ability to allow office workers to work from home and have flexible hours
- Virtual meetings with Council and CLT allowed regular business and decision making to continue

Situational Awareness and Information Sharing

- Information flow between sections and EOCMT (up and down) was effective
- Staff bulletins were well received by those staff with email access (concise with links to further detailed information)
- Having Communication staff sit on each section and EOCMT helped with streamlining internal and external messaging
- Townhalls were an efficient and appreciated method of reaching staff and allowing real time questions to be answered directly by leadership

Public Alerting and Orders

- Communication to the public to educate them on how we are keeping our staff safe and continuing to deliver service to them

Planning

- Recovery documents set a solid foundation for guidance and phased recovery
- Good partnerships with local and regional groups. Waterloo Regional CEMCs worked well together as did the regional CAOs

Continuity of Operations

- Collaboration within and across teams to set up new processes in a timely way
- “Fast, not perfect” mentality allowed for rapid change to get the business running again in a safe manner; staff excelled at problem solving

Resource & Financial Management

- Very fast response by TIS staff to get staff set up to work from home (Teams, laptops, VPN, Sharepoint)
- Funding supports and resources from other levels of government (Safe Restart)

Health and Safety

- Quick implementation of new procedures, policies, and PPE to keep staff safe in the field
- Minimal transmission in the workplace

Challenges:

Organizational Structure

- Lack of focus and clear delineation of which tasks fell to each EOC section; sometimes there was duplication of work or transfer of issues between sections
- IMS hierarchy structure had challenges related to sharing decisions made by other sections and cascading the information quickly across sections

Decision Making

- Periods of ambiguity around masking were tough for staff when customers were polarized and staff had no ability to enforce
- Due to the length of the pandemic, working within the IMS structure for decision making started to blur the lines between what is an operational decision and what is a pandemic decision.
- Decision making was not linear – made decisions to advance and then retreated; hard to track where we landed with each decision given the pace of changes

Facility

- Current configurations of workstations in some areas did not allow for 2 metres physical distancing, requiring staff to alternate days in the office
- Having no access to washrooms for front-line outside staff was an issue
- Staff having to take lunch breaks outside gave the impression to the public that staff were not working / being lazy, leading to complaints from the public

Staffing

- HR was severely understaffed considering the bulk of the policies, procedures and health tracking fell to them, yet no additional resources were added
- Workload for Communications staff was a challenge, particularly the late Friday afternoon announcements from the province

- Public Health not able to provide interpretation on regulations; require internal support or external counsel for this topic

Situational Awareness and Information Sharing

- Regional partners not able to meet our pace for coordinated communications; often waiting on others before sending out
- Information overload – too much communicated at once and changes frequently; difficult to remember what the current procedure is
- Different messaging for the public vs. staff was a challenge (i.e., when mandates differed)
- Getting information to staff not on email or in the office was challenging

Public Alerting and Orders

- Public / media didn't understand that we received information from the Province at the same time as they did and expected immediate response
- Volume of information coming from regulatory bodies, often late Friday afternoons, with conflicting or unclear direction; forced to react to decisions outside of our control
- Provincial directives / regulations were confusing and hard to decipher

Continuity of Operations

- Didn't have much time to respond or perfect process changes
- Volume of pandemic work was overwhelming, meaning other core work was put on pause; some areas continued with corporate projects and expected support from those with pandemic responsibilities which was unrealistic
- Payment options for the public fell short – citizens could access services online but had to come in person to pay or send a cheque
- Disconnect in what the City's role was early on – save money or continue providing service, e.g., determining grass cutting was not a critical service, releasing all staff, and then being told it was now a critical service
- Many staff taking on dual roles trying to manage the pandemic and perform their regular work; culture and some work suffered as a result

Resources Management

- Putting people on and off leave due to shut-downs was time consuming and challenging
- Moving from double or quad vehicle occupancy to single occupancy put a strain on resources and was bad optics as more vehicles on the job site
- Dispatch radios did not work outside of Kitchener so dispatchers could not work from home; took about 1 year to get the ability for dispatch staff to take calls from home.

Health and Safety

- Staff didn't want to enter private residences (change gas meters, water meters, service calls)

- Excessive workload and condensed timelines has led to burnout and making it difficult to find a work-life balance
- Extreme stress for some in leadership roles who were guiding staff with little knowledge or training themselves; stress related to the pandemic; stress related to increased workload

Recommendations:

There were many ideas for improvement provided by staff and management during this review to address the challenges noted above. While all of the ideas for improvement will be considered and evaluated, several key actions are recommended and are being reviewed by senior management. These fall into two categories:

1. Preparedness actions which should be taken now to prepare for the next large scale emergency or pandemic; and
2. Response and recovery actions which should be implemented during the next emergency.

The actions will be reviewed and prioritized by the City in order to mitigate risk and improve the overall emergency management program.

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

ATTACHMENTS: none