

# TTC AUDIT COMMITTEE REPORT NO.

**MEETING DATE:** July 14, 2009

**SUBJECT:** INTERNAL AUDIT REPORT – MATERIALS & PROCUREMENT –  
INVENTORY PLANNING

## INFORMATION ITEM

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### RECOMMENDATION

It is recommended that the Audit Committee receive for information the attached Internal Audit Report.

### BACKGROUND

Internal Audit provides the Commission with independent evaluations of the efficiency and effectiveness of control systems, and operations. Internal Audit is also required to provide recommendations for improvement.

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Richard G. Beecroft  
Chief Auditor

July 14, 2009  
01-23

Attachment - Internal Audit Report

**EXECUTIVE BRANCH  
MATERIALS AND PROCUREMENT DEPARTMENT  
INVENTORY PLANNING**

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## **EXECUTIVE SUMMARY**

This audit assessed the management, financial and operational controls of the Inventory Planning section of the Materials and Procurement Department. An Exit meeting was held on March 10, 2009 with the General Manager – Executive Branch to discuss the audit. The audit found that the department is well managed and that the overall internal controls are effective in monitoring and controlling the delivery of the section responsibilities.

However, Audit did identify processes improvements for controlling and managing project materials. Management has agreed to review and update the procedures.

We wish to express our thanks for the co-operation and assistance received from all parties during the course of the audit.

R.G. Beecroft  
Chief Auditor

K. Draudvila  
Audit Project Manager

## **FOREWORD**

Inventory Planning Section is one of five (5) Sections within the Materials and Procurement Department. The Section manages the inventory of materials to achieve an optimum level taking into account cost and service need of the users. To co-ordinate and manage the identification and disposition of surplus assets.

## **AUDIT SCOPE AND OBJECTIVES**

**SCOPE:** The audit included a review of key management, operational and financial controls of Inventory Planning Section for the period January 2006 to December 2007.

**OBJECTIVES:** To assess the management and operational controls to ensure:

- accountability and reporting relationships are appropriate for the Commission;
- due regard for economy, efficiency and effectiveness; and
- procedures and processes are in place to measure and report on the Department's activities.

To evaluate the adequacy of financial controls to ensure:

- compliance to Legislative and Commission requirements;
- the timeliness, accuracy, completeness and authority of transactions; and
- the safeguarding and control of assets and other information.

**AUDITED ITEMS FOUND ACCEPTABLE**

<b>KEY CONTROL</b>	<b>FINDING</b>
Materials Management System Administration	<p>A process to verify and control the level of access granted to users is in place. The system access levels are reviewed quarterly.</p> <p>A process is in place to identify and monitor outstanding application issues, meetings are held regularly with Information Technology Services to assign priorities and provide additional information.</p> <p>Periodic disaster recovery tests are planned and the section follow-ups on system issues to ensure a suitable resolution is found.</p>
Surplus Assets	<p>A process is in place to monitor and control the disposal of the main categories of surplus assets (scrap metal, vehicles and shop equipment).</p> <p>Informal tenders are used to dispose of other surplus assets such as computer equipment and obsolete inventory.</p>
Payroll and Attendance	<p>The section maintains records to monitor and control, vacation, lieu time earned and overtime. Attendance is reported and payrolls approved by supervisory staff based on records maintained and submitted by the work locations.</p>
Expenditures	<p>Petty Cash expenditures are made in compliance with TTC policy. Cell phone and Long Distance usage is monitored and recoveries made for personnel calls.</p>
Employee Training and Development	<p>Individual employee training plans are identified during the performance appraisal process. Section wide requirements are identified by management and the necessary training obtained.</p>
Occupational Health and Safety	<p>The section monitors and controls safety issues in accordance with the existing legislation and TTC policies.</p>
Records Management	<p>Records are maintained in accordance with established TTC policy and municipal by-laws.</p>

## AUDITED ITEMS FOUND UNACCEPTABLE

### FINDING #1

#### PROJECT MATERIALS MANAGEMENT

**OBJECTIVE:** To determine if project material inventory is effectively monitored and obsolescence costs are controlled.

**ANALYSIS:** The section is responsible for ensuring that the requests for project materials from the operating departments are authorized and they are delivered based on projected needs.

Audit noted that the appropriate authorization sign-offs are not always obtained from the departmental managers prior to tendering part requirements for projects. A review of a sample of six project files found that that all six (100%) did not have an approved Project Material Requirements Summary Authorization sheet on file with the planner.

While the section is responsible for maintaining adequate inventory levels, based on operating department requirements, the operating department can cancel and delay projects without notice.

Audit noted that Inventory Planning management is not regularly communicating to the operating department's senior management the value of the unused/obsolete project material being held in inventory. The last time a report was forwarded to senior management was on December 4, 2006.

As a result of project cancellations, delays and excess inventory for completed projects the unused project material inventory has risen 140% in four years (\$10 Million in 2004 to \$24 million in 2008). Generally the inventory items will be used up as part of regular business, however, 1.5% to 2.0% of the inventory will have to be written off as part of a write off provision.

**RECOMMENDATIONS:**

Management should:

- ♣ ensure that of project material requisition files contain documentation of operating department management approval,
- ♣ implement regular monitoring and reporting to senior management the value of unused project inventory costs.

**MANAGEMENT'S  
RESPONSE:**

Management acknowledges that appropriate sign-off by Operations Management was not always documented and held in the project file. In some cases emails followed by a hardcopy Bill of Materials were used as the communication method. Subsequent to the actual audit, one of the six signed authorizations was discovered and did have the appropriate sign-off. The Inventory Planning Section now have changed it's authorization procedure to include a verification by the Senior Planner that appropriate user sign off has occurred. As well, the Senior Planner will now be required to conduct periodic audits of capital programs involving inventory material to insure all appropriate sign-offs are on file.

Although the status of project material is reported in the year-end financial reporting, management agrees that a separate report should be sent to senior management displaying the current position of project material. This will now be part of the year-end reporting process. In addition, the Project Planning Procedure has been revised to require the originator of the project to be responsible to determine the disposition of the material remaining once a project is considered complete. If the decision is to use the material through on-going maintenance the originator will provide a period of time over which the material will be used.

It should be noted that while the value of project material has increased substantially since 2004, so has the total consumption of materials throughout the Commission. Overall the annual consumption of material has risen approximately 16% or \$12M since 2004 due to increase maintenance needs.

**MANAGEMENT'S  
RESPONSE: (Cont'd.)**

In addition, capital projects of this type are rarely cancelled, however; they may be delayed or completed with material still remaining on shelf. When project material is left over it is normally used for ongoing maintenance needs as the obsolescence and subsequent writing off of material is normally minimal. The value of surplus material (both regular and project material) that is normally written off on an annual basis, represents only approximately 2% of total inventory. Based on information obtained from other transit properties, this write-off is the low end of what is generally occurring in the transit industry.