



Report of the Auditor General of the Ville de Montréal to the City Council and to the Urban Agglomeration Council

For the Year Ended December 31, 2014

4.8

STOCK MANAGEMENT



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List of Acronyms

SCARM	Service de concertation des arrondissements et ressources matérielles	SPO	Service de la performance organisationnelle
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4.8. Stock Management

1. Introduction

Every year, the Ville de Montréal (the City) acquires goods intended for use during the normal course of business. Thus, the vast majority of the City's business units keep goods in stock in stores, satellite stores, depots or even mobile units.¹ These stored items, which represent assets worth \$30 million in the financial statements for 2012 and 2013, include a multitude of items of various kinds, sizes and values and they must, as property owned by the City, be managed so as to ensure their completeness, value and protection.

In recent years, several internal documents have been distributed to the City in order to provide specifications to the business units concerning, among other things, the procedure for accounting for goods as inventory, as well as the methods to be used to manage and evaluate them. Thus:

- the City's *Politique d'approvisionnement* [TRANSLATION: Procurement Policy]² was updated in November 2011 by the Service de concertation des arrondissements et ressources matérielles (SCARM).³ It provides the framework governing the responsibilities of the Service de l'approvisionnement,⁴ the boroughs and the central departments concerning, among other things, the acquisition and management of goods;
- the *Guide de référence en gestion des stocks*⁵ [TRANSLATION: Stock Management Reference Guide], prepared by the Service de l'approvisionnement in August 2009, is intended to direct users to standard stock management practices. It covers stock categories, inventory taking and stock obsolescence, among other things;
- the guideline entitled *Comptabilisation des inventaires*⁶ [TRANSLATION: Inventory Accounting] was published in February 2013 by the Service des finances. It presents notions concerning the evaluation and recording of inventory in the books for the business units;
- the *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide], transmitted to the business units at the end of the fiscal year by the Service des finances, is intended to serve as a reference tool for the preparation of the City's financial statements.

¹ Terms used in the City's *Politique d'approvisionnement* [TRANSLATION: Procurement Policy].

² *Politique d'approvisionnement* of the Ville de Montréal, no. C-RM-SCARM-PA-11-001, November 24, 2011.

³ Now called the "Service de la concertation des arrondissements".

⁴ Formerly known as the "Direction de l'approvisionnement" of the SCARM.

⁵ *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide], Service de l'approvisionnement, August 2009.

⁶ "Comptabilisation des inventaires (Directive)" [TRANSLATION: Inventory Accounting Guideline], no. C-RF-SFIN-D-13-001, February 4, 2013.

In addition to these documents, which are made available to the managers of the City's business units, efforts must be made to ensure that the Policy, the Guideline and the guides published concerning stock management are transmitted to the users for whom they are intended, are understood and are duly applied.

2. Purpose and Scope of the Audit

The audit was performed first and foremost to determine whether the management frameworks concerning stock management are adequate and applied correctly so as to ensure that the stocks presented in the financial statements are properly evaluated and monitored.

Our audit included two basic tasks:

- The first was intended to ensure that the current management framework, specifically with respect to stock management (policy, guideline and guides) that serves as a pertinent reference for all of the business units (boroughs and central departments) is complete and consistent.
- The second involved making sure that this management framework is applied in an adequate and consistent manner by the boroughs in order to ensure that:
 - the stocks are adequately monitored and evaluated;
 - access to the stocks is restricted to authorized individuals.

More specifically with respect to this second task, our audit was intended to make sure that:

- the management of the storage areas guarantees the completeness of the stocks presented in the fiscal year-end financial statement;
- the documentation concerning the year-end valuation of the stocks agrees with the value of the stocks as presented in the books at that date;
- a process whereby the City's business units provide accounting information regarding their year-end stock balances to the Service des finances has been implemented and is adequately followed;
- physical access to the stocks is restricted to authorized individuals.

Our audit was limited to the stocks stored in depots and did not cover any other type of stocks also held by the business units. For example, we did not cover the management of the supplies of gas used for the City's rolling stock.

Our audit covered fiscal years 2013 and 2014 and was conducted on a sample of four boroughs for certain divisions that hold stocks in depots.

Our audit concerned the following boroughs and divisions:

- Mercier–Hochelaga-Maisonneuve borough:
 - Direction des travaux publics:
 - Division des parcs et de l'horticulture,
 - Division de la voirie;
- Rosemont–La Petite-Patrie borough:
 - Direction des travaux publics:
 - Division de l'entretien de l'éclairage, de la signalisation et du marquage de la chaussée,
 - Division des parcs et des installations,
 - Division de la voirie;
- Saint-Laurent borough:
 - Direction des travaux publics:
 - Division de la mécanique des bâtiments et de l'éclairage des rues,
 - Division des parcs et des espaces verts,
 - Division de la voirie;
- Ville-Marie borough:
 - Direction des travaux publics:
 - Division des parcs et de l'horticulture,
 - Division de la voirie.

Our audit took place between May 15 and October 30, 2014. It involved, among other things, reading stock management and accounting reference documents distributed by the City, announced and guided visits of the storage areas, gathering information during meetings with managers and conducting surveys deemed necessary under the circumstances, in order to obtain information that was conclusive, sufficient and necessary to support our audit report.

At the end of our audit, a draft report was presented for discussion purposes to the managers concerned in the four boroughs audited (Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie, Saint-Laurent and Ville-Marie), the manager of the Service de l'approvisionnement, the manager of Comptabilité et des informations financières of the Service des finances and the City manager. Following this, the final report was transmitted to the four boroughs audited, the Service de l'approvisionnement, the Service des finances and the Direction générale in order to obtain action plans and the schedules for implementing them.

3. Summary of Findings

Our audit indicated that improvements are required in several areas, particularly with respect to the following elements:

- Overall stock management framework (Section 4.1.1):
 - The roles and responsibilities of the Service des finances, which is responsible for inventory accounting, are not clearly defined in the City's *Procurement Policy*;
 - The accounting procedure for various stakeholders, specifically for the two departments that play important and different, yet complementary, roles in inventory management and accounting, namely the Service de l'approvisionnement and the Service des finances, is not clearly established in the policy;
 - The lack of clear benchmarks and guidelines provided under a single, flagship policy and the absence of links and coordination between these two departments mean that several documents prepared by them lack consistency and do not provide all of the information needed by the users;
 - In the absence of clear accountability requirements on the part of the two major stakeholders, it is difficult for the Direction générale to have an overall picture of all of the storage sites, to evaluate the extent to which the *Procurement Policy* is applied and to make the necessary modifications in a timely manner.

- The City's *Procurement policy* and *Stock Management Reference Guide* (section 4.1.2.):
 - The policy, which is dated November 2011, has not been updated to reflect the new name of the Service de l'approvisionnement, in keeping with the City's current organization chart;
 - The policy states the responsibilities of the boroughs and the central departments, but does not indicate who is responsible for organizing, managing and monitoring the mobile units;
 - Nine of the 13 managers responsible for stocks whom we met in the four boroughs audited know about the policy but only one knew of the guide;
 - The Service de l'approvisionnement does not assume the responsibilities assigned to it in the policy with respect to organizing, managing and monitoring stocks in all stores and depots;
 - The guide does not specify for whom it is intended and does not provide clear and concrete guidelines or examples in order to focus the item count work on the inventory items to be considered. For example, the notion of "depot" as used in the guide is not the same as that used in the policy.

- *Inventory Accounting Guideline and Fiscal Year-end Procedures Guide* (Section 4.1.3.):
 - More than half of the 13 managers we met in the four boroughs audited were unaware of the guideline and only 31% of them knew of the procedures guide;
 - The definitions of “depot,” “inventory” and “stock” in the guideline are not clear, which creates confusion for the managers;
 - There is no mention in the 2013 Procedures Guide of its scope;
 - The 2013 Procedures Guide does not require any formal accounting in the form of detailed year-end inventory lists that would ensure an adequate valuation of the stocks.

- Stock management system (Section 4.2.1) :
 - Although required by the guideline, none of the divisions in the four boroughs visited has a permanent inventory record, manual or computerized. Thus, stock movements are not monitored during the course of the year, meaning that the reliability of the stock situation at the end of the year cannot be guaranteed, a situation that significantly increases the risk of loss or active theft;
 - In the divisions visited, there is no detailed list of items in stock at the end of 2013 with descriptions of the items, their location and their cost, as well as the basis for the cost evaluation;
 - According to a survey we conducted of 26 managers (19 borough managers and 7 department managers), two of them were able to provide complete and detailed lists of the items on hand at that date and three had prepared an analysis and an evaluation of the obsolescence of the stocks for which they were responsible at the end of 2013.

- Frequency of the physical item counts (Section 4.2.2):
 - No item count with detailed lists was made of the depots from the end of 2013 to the end of our audit work in October 2014 by the managers of the business units visited;
 - According to a survey we conducted of the directors of the 19 boroughs and the 7 central departments⁷ that have inventories, only 15 of them had had an inventory taken at the end of 2013.

- Security and access to storage sites (Section 4.2.3.):
 - Doors and gates that were supposed to block access to storage sites were open and unsupervised when we visited some boroughs;

⁷ Service de la gestion et de la planification immobilière – Direction des immeubles, Service de police de la Ville de Montréal, Service de sécurité incendie de Montréal, Service du matériel roulant et des ateliers, Service de l’approvisionnement, Service de l’Espace pour la vie and Service de l’eau.

- Managers responsible for depots do not know exactly who has magnetic card access to their secure depots. Indeed, the access lists we were given by the division managers did not correspond to lists of people who actually have access prepared by the Division de la sécurité, which reports to the Service de la gestion et de la planification immobilière. This division manages access permission and cancellation requests;
- Magnetic cards providing access to the secured stock storage sites were still active at the time of our audit for employees who had left their job;
- In the case of depots equipped with a locked door, there is no monitoring mechanism to identify all of the keys or indicate the identities of the people who have keys;
- Certain divisions use locks or padlocks whose keys can be easily copied without authorization;
- For most of the business units visited, there is no surveillance system in place for the depots;
- There are weaknesses in the surveillance systems.

4. Detailed Findings and Recommendations

4.1. Stock Management Framework

We identified certain elements which we believe to be essential components of written guidelines to be transmitted to the managers of the business units. These include:

- a clear definition of the roles and responsibilities of all inventory management and accounting stakeholders;
- the obligation to determine what constitutes stock (assets) and what constitutes an expense;
- the obligation to take inventory and the required frequency;
- the stock valuation process;
- the procedure for determining whether items in stock are obsolete;
- access control and security of the storage sites;
- the accountability of each stakeholder.

Good business practices inevitably involve following structured and observable rules. The same applies to stock management. In the case of the City, our audit identified four documents that cover inventory management and accounting:

- The *Politique d'approvisionnement de la Ville de Montréal* [TRANSLATION: Procurement Policy];

- The *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide], published by the Service de l'approvisionnement;
- The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
- The *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide], prepared by the Service des finances, provides a list of the rules to be applied by the business units.

These documents were distributed to inform the reader about the corporate measures to be taken with respect to inventory management and accounting.

We assessed the degree to which these documents contain the elements we consider essential. We also took steps to ensure that some of the components of these documents, which we targeted, are known to and applied by the stakeholders concerned.

4.1.1. Documents Supporting the Stock Management Framework

4.1.1.A. Background and Findings

Several documents complement the overall stock management framework:

- The City's *Procurement Policy*, issued by the SCARM and prepared and revised by the Service de l'approvisionnement;
- The *Stock Management Reference Guide*, prepared by the Service de l'approvisionnement;
- The *Inventory Accounting Guideline* prepared by the Service des finances;
- The *Fiscal Year-end Procedures Guide*, prepared by the Service des finances.

During our audit, while reading the various documents that make up the overall supply management and inventory accounting management framework, we noted that not all of the roles of the stakeholders concerned are clearly defined in the City's *Procurement Policy*, updated in November 2011.

Indeed, two departments play important and complementary roles in supporting current stock management and accounting activities. While the Service de l'approvisionnement is responsible for the operational management of stocks, specifically for ensuring that they are available and access to them is secure in keeping with the policy, the Service des finances is responsible for their valuation, accounting for them and presenting them adequately in the accounting books. Thus, linking the responsibilities of these two departments, whose roles

are intended to be complementary, is crucial in order to guarantee that the acquisition of goods by the administrative units, their use during the year and the recording of the stocks of goods left at the end of the year are properly reflected in the City's books. Moreover, in order to ensure that this linking is adequate, the accountability required on the part of each of the two departments with respect to the administrative units concerned must serve to establish clear limits to their responsibilities and ensure better accountability with respect to the expected results.

We noted that the policy did not integrate the inventory accounting aspect or the responsibilities of the Service des finances. Moreover, the policy did not provide for accountability on the part of the various stakeholders concerned by the policy, specifically those attributed to the Service de l'approvisionnement and the Service des finances, respectively.

Thus, due to a lack of clear benchmarks and guidelines outlined in a flagship policy combined with the absence of links and coordination between the two departments that play different yet complementary and essential roles with respect to inventory management and accounting, we noted that the other related documents prepared by these two departments to provide a framework for stock management lack consistency and do not provide all of the information needed for users be able to adequately manage the inventories for which they are responsible.

Moreover, in the absence of clear accountability requirements on the part of the major stakeholders, it is difficult for the Direction générale to have an overall picture of all of the storage sites that belong to the City, as well as to evaluate the extent to which the *Procurement Policy* is applied and make necessary amendments in a timely manner.

This lack of coordination resulted in the preparation of two reference documents, the *Stock Management Reference Guide* and the *Inventory Accounting Guideline*, covering similar topics. Even so, as a result of this situation, certain elements which are essential for healthy stock management are not contained in either document. In Sections 4.2.1 and 4.2.2, we will cover the principal elements that are either inconsistent or are missing, as identified by our examination of these two documents. By way of example, however, we noted that the *Stock Management Reference Guide* covers item counts, but does not specify the level of detail expected, while the *Inventory Accounting Guideline* requires details that enable the identification and valuation of the stock items counted. Indeed, the guideline stipulates that a permanent inventory record must be implemented and should provide the following information:

- Description of each item;
- Location of items;
- Quantities on hand;
- Unit cost;
- Total cost of the stocks.

We believe that the existence of several documents concerning stock management practices increases the risk of confusion for the users concerned and that, as a result, errors or omissions could occur with respect to the procedures to be followed to adequately manage stocks.

4.1.1.B. Recommendation

We recommend that the Direction générale make sure that the Service de l'approvisionnement, in cooperation with the Service des finances, designs and implements a unique, complete and useful reference framework to support stock management activities, including, among other things, the acquisition of goods, their use during the year and the accounting of stocks of goods left over at the end of the year. Moreover, we recommend that the Direction générale ensure that:

- the City's *Politique d'approvisionnement* [TRANSLATION: Procurement policy] indicates the roles and responsibilities of all stakeholders closely or peripherally involved in the management of stocks, particularly those in the Service des finances;
- the City's *Politique d'approvisionnement* [TRANSLATION: Procurement policy] integrates the accounting elements required by each stakeholder to ensure better accountability and better monitoring of the degree to which the policy is applied;
- an overall picture of all stock storage sites belonging to the City is prepared and kept up-to-date.

Business unit's response:

[TRANSLATION] In 2014, the City created a Service de la performance organisationnelle (SPO), which started work on 12 priority areas. One of these areas concerns procurement and will entail several sub-projects over the coming years. (Planned completion: progressive implementation from 2015 to 2019)

On a short-term basis, the SPO has already proposed a project chart for inventory management, which was adopted by the performance improvement committee.

Management will make sure that the recommendations of the auditor general are implemented through this work. (Planned completion: December 2019)

4.1.1.C. Recommendation

We recommend that the Service de l'approvisionnement work with the Service des finances to:

- ensure that the reference documents (policy, guideline and guides) issued by the two departments contain all of the sufficient and necessary information to enable the managers concerned to adequately fulfil their responsibilities with respect to the management and valuation of the stocks for which they are responsible;
- undertake a complete revision of the following documents:
 - the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide];
 - the *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
 - the *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide];

in order to create a unique and complete reference framework for the acquisition, receipt, physical handling, accounting and protection of inventory.

Business units' responses:

SERVICE DE L'APPROVISIONNEMENT ET SERVICE DES FINANCES

[TRANSLATION] Creation of a coordination committee to completely revise and update the following documents:

- *Guide de référence en gestion des stocks [TRANSLATION: Stock Management Reference Guide];*
- *Directive sur la comptabilisation des inventaires [TRANSLATION: Inventory Accounting Guideline];*
- *Guide des procédures de fin d'exercice financier [TRANSLATION: Fiscal Year-end Procedures Guide].*

Make sure that the documents are complete and enable the managers of the business units to adequately fulfil their responsibilities with respect to managing and evaluating inventories.

P.S. The definition of the new business model is a prerequisite to this action. (Planned completion: December 2016)

Auditor General's Comments:

We feel that the planned completion date (December 2016) determined by the Service de l'approvisionnement and the Service des finances for updating these documents is too late. The managers of the business units that have inventories depend on these documents to ensure the adequate and effective management of their inventories. We ask the

Service des finances to work with the Service de l’approvisionnement to plan alternative measures so as to properly support the business units with respect to taking inventory for December 31, 2015.

4.1.2. Procurement Policy of the Ville de Montréal and Stock Management Reference Guide

4.1.2.A. Background and Findings

Procurement Policy of the Ville de Montréal

The City’s *Politique d’approvisionnement* [TRANSLATION: Procurement Policy] defines, among other things, the responsibilities of the Service de l’approvisionnement with respect to the development of a business model that applies to all of the business units in order to promote optimum stock management. It also establishes the responsibilities of the boroughs and central departments in this respect.

The policy specifies that the Service de l’approvisionnement is responsible for developing and updating the policy. We noted, however, that the policy did not indicate the exact name of the Service de l’approvisionnement, in keeping with the City’s organization chart, which was updated in January 2015. Indeed, the policy refers instead to the Direction de l’approvisionnement, although the status of the department was modified and the name was changed to “Service de l’approvisionnement” when the administrative re-organization of the City was made official in May 2014. As a result, we conclude that the policy does not seem to have been revised recently.

Also, although the *Procurement Policy* is intended for all business units, only 9 of the 13 managers we met from the boroughs audited knew of its existence. In our opinion, this lack of knowledge concerning the policy results in the risk that the policy’s objectives are not known and respected by the managers responsible for applying it. Thus, the approach retained for managing stock could be different from that prescribed in the policy, making it impossible to ensure its consistent application.

Moreover, the policy states that the City must have a main store, satellite stores and depots and that the Service de l’approvisionnement is responsible for organizing, managing and monitoring them. In fact, only one of the 30 depots we visited in the four boroughs audited is managed by the Service de l’approvisionnement. According to the managers we met, all of the other depots we visited are managed by borough personnel. Thus, in most cases, blue-collar workers, under the supervision of foremen, are responsible for managing and

distributing the goods in stock. In our opinion, this assignment of duties to employees who are not necessarily trained in the matter could result in non-compliance, involuntary or otherwise, in the application of the practices prescribed by the Service de l'approvisionnement.

We noted that the policy does not explicitly state who is responsible for organizing, managing and monitoring stocks contained in the mobile units, which consist of vehicles containing stocks that certain City employees use to perform several daily tasks.

Stock Management Reference Guide

The *Guide de référence en gestion des stocks* [TRANSLATION: Stock management reference guide] complements the City's *Politique d'approvisionnement* [TRANSLATION: Procurement policy], which was developed by the Service de l'approvisionnement. It establishes the process and the practices to be followed for making a physical count and managing stocks.

The guide does not state who it is intended for in its foreword. We asked the managers we met within the four boroughs audited whether they were familiar with the guide. Only one of the 13 managers we consulted already knew of the guide and only because he had previously held a position in a central department. The fact that this guide is not known and, as a result, not consulted results in major risks to the fiscal year-end inventory count process since the practices prescribed by the City for this purpose may not be followed. We noted, for example, that in the business units where a count was made as of December 31, 2013, the documentation concerning the count was deficient, containing little or insufficient details to provide a good appreciation of the items listed. For example, we identified several situations in which the inventory amounts were transmitted to the Service des finances for the purposes of preparing financial statements, although no list of the assets in question was produced. This situation is of concern since items may not be included in the inventory, may be counted twice or may be the object of theft, without the managers responsible for them being aware of the situation.

The reference guide makes the following subtle distinction between items in stock and those in a depot: items in stock are considered assets from an accounting standpoint and are recorded as such in the books as long as they have not been consumed. Items in depots, on the other hand, as of their acquisition, are considered an expense (therefore, already consumed) since they are expected to be used in a very short time-frame. In any case, we noted that it becomes difficult for the user of all these documents to make sense of them.

Moreover, the guide does not include clear and concrete guidelines or examples to focus the item count process on goods that are to be considered stock items. Thus, in the case of the inventory lists that were given to us, we noted that, as a result of an incorrect interpretation of the notion of inventory (goods intended to be used on a short-term basis), the managers concerned included items in their inventory that do not correspond to the accounting notion of inventory, such as tools used to maintain parks, park benches themselves and other used municipal equipment. For lack of clear rules, goods that are considered capital assets or expenses (used items) may incorrectly be recorded as inventory.

The guide covers certain aspects of taking inventories, but does not provide any guidelines with respect to the recommended approach, whether it be the recommended frequency, procedure, or documentation to be used. Our audit revealed that the documentation concerning inventories taken does not always provide details about the items counted, such as the item name, the quantity, the unit cost and the location, does not specify the method used to calculate the cost and shows no indication of a review by an authorized person. As a result, it is very difficult to ensure that the value of the stocks is adequate and is determined in keeping with the stock valuation method selected by the City, namely the average cost.

Moreover, we noted that the guide does not cover the procedures recommended for receiving goods, storing them, distributing them and protecting them.

As a result of this lack of clear rules, individuals responsible for these activities receive inadequate support to ensure these practices, which could potentially result in the loss or theft of “stocks” that are poorly stored or not protected.

4.1.2.B. Recommendation

We recommend that the Service de l’approvisionnement:

- **make sure that the City’s *Politique d’approvisionnement* [TRANSLATION: Procurement policy] is updated to reflect its name in the organization chart in effect;**
- **plan to deploy its resources to adequately assume its responsibilities with respect to the organization, management and monitoring of the stocks in all of the stores and depots, as stipulated in the *Politique d’approvisionnement* [TRANSLATION: Procurement Policy];**
- **specify its responsibilities with respect to the mobile units in the *Politique d’approvisionnement* [TRANSLATION: Procurement policy];**
- **make sure that the *Politique d’approvisionnement* [TRANSLATION: Procurement policy] is known and that its objectives are applied by all the business units.**

Business unit's response:

[TRANSLATION] Revision of the Politique d'approvisionnement [TRANSLATION: Procurement Policy] to reflect its name, as indicated in the City's current organization chart: replace "Direction de l'approvisionnement" with "Service de l'approvisionnement." (Planned completion: June 2015)

The responsibilities of the Service de l'approvisionnement and the business units with respect to the mobile units will be defined in the new business model. (Planned completion: December 2016)

Auditor General's Comments:

We feel that the planned completion date (December 2016) determined by the Service de l'approvisionnement for defining its responsibilities and those of the business units with respect to the mobile units is too late. There is currently no guideline requiring accountability on the part of managers of the business units with mobile units. We ask the Service de l'approvisionnement to work with the Service des finances to make sure that the inventory of these mobile units is counted as of December 31, 2015.

Deployment of resources to manage and monitor the inventories of all stores and depots, in keeping with the new business model. (Planned completion: progressive implementation from 2015 to 2019)

Auditor General's Comments:

We feel that the deadline (from 2015 to 2019) determined by the Service de l'approvisionnement for the deployment of resources to manage and monitor the inventories of all the stores and depots is too vague and too distant. It is important to implement these measures rapidly in order to determine the nature, quantity and value of the stocks held in these depots so as to prevent any loss, theft or other waste of assets. A detailed deployment in stages, starting in 2015, would allow the City to better follow up and manage the progress of the project.

Update the Politique d'approvisionnement [TRANSLATION: Procurement Policy] to specify the responsibilities with respect to the mobile units in keeping with the new business model.

Disseminate the Politique d'approvisionnement [TRANSLATION: Procurement Policy] and make sure the objectives stated in it are applied by all the business units. (Planned completion: December 2019)

Auditor General's Comments:

We feel that the deadline (December 2019) determined by the Service de l'approvisionnement for updating the procurement policy, distributing it and validating its application is too late. This policy is the flagship document on which all of the other guidelines and documents concerning inventories are based. This policy must be updated by December 2016, before all the other documents concerning its application are updated, in order to make the necessary changes in keeping with this planned improvement in inventory management.

4.1.2.C. Recommendation

We recommend that the Service de l'approvisionnement work with the Service des finances to make a complete revision of the following documents:

- The *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide];
- The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
- The *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide];

in order to create a unique and complete reference framework for the acquisition, receipt, physical handling, accounting and protection of stocks.

Business units' responses:**SERVICE DE L'APPROVISIONNEMENT ET SERVICE DES FINANCES**

[TRANSLATION] Creation of a coordination committee to completely revise and update the following documents:

- *Guide de référence en gestion des stocks [TRANSLATION: Stock Management Reference Guide];*
- *Directive sur la comptabilisation des inventaires [TRANSLATION: Inventory Accounting Guideline];*
- *Guide des procédures de fin d'exercice financier [TRANSLATION: Fiscal Year-end Procedures Guide].*

Make sure that the documents are complete and help the managers of the business units to adequately fulfil their responsibilities with respect to managing and evaluating inventories.

P.S. The definition of the new business model is a prerequisite to this action. (Planned completion: December 2016)

4.1.2.D. Recommendation

We recommend that the Service de l'approvisionnement work with the Service des finances, specifically with respect to the findings concerning the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide], to:

- specify which units the new document is intended for;
- provide clarifications in the guide concerning the notions of stocks (assets) and depots (expenses), with concrete examples of items to be counted adapted to the various realities of the business units;
- include precise procedures in the guide that have to be followed in order to ensure the physical count of goods and the related documentation are handled properly, along with precise instructions for implementing means to adequately protect goods in stock and for monitoring incoming and outgoing goods;
- specify clear rules in the guide for the receipt, storage, distribution and protection of goods in stock.

Business units' responses:

SERVICE DE L'APPROVISIONNEMENT ET SERVICE DES FINANCES

[TRANSLATION] Creation of a coordination committee to revise and update the stock management reference guide so as to:

- specify the units to which it applies;
- clarify the notions of stocks (assets) and depots (charges) with concrete examples of items to be counted;
- integrate or make a reference in the guide to specific procedures for physically counting goods and documenting this, so as to implement adequate means for protecting inventoried goods in order to monitor incoming and outgoing items;
- provide clear receiving, storage and distribution rules in the guide. **(Planned completion: December 2016)**

4.1.3. Inventory Accounting Guideline and Fiscal Year-end Procedures Guide

4.1.3.A. Background and Findings

The Inventory Accounting Guideline

The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline] is intended for all business units that have an inventory of goods. It defines what an inventory is and stipulates the accounting methods for stocks and obsolete items.

Moreover, the term “inventory” is inaccurate. In fact, an “inventory” is the activity that serves to count “stocks.” The appropriate term is “stock” and not “inventory.” As a result, when documents are revised, it would be a good idea, as recommended in several places in the report, to use the terms “stock” and “inventory” in their proper sense.

We noted that the people responsible for stocks have not been given adequate information about the objectives and use of this guideline. In fact, only six of the 13 managers met in the boroughs audited indicated that they had heard about this guideline, while saying that they did not apply it fully. Therefore, the rules provided in the guideline may not be followed by those responsible for stock management in the various business units, which increases the risk that the value of the stocks recorded at the end of the year will be inadequate.

Moreover, several of the managers we met indicated that they find certain terms used or certain notions presented in the guideline unclear, resulting in confusion on their part in the interpretation and understanding of concepts such as “depot,” “inventory” and “stocks.” As a result, several managers told us that they do not take an inventory of the depots at the end of the year and do not assign a value to the assets held. This situation results in an incorrect valuation of the stocks recorded in the City’s books.

For a few business units involved in similar activities that do take inventory, we compared the inventory lists produced. These units are responsible for similar activities. We noted disparities among the business units with respect to the items included in these lists. Indeed, several categories of items tracked on some lists are not found on other lists, such as stationery and small tools. We can deduce from this that the definitions of what constitutes an inventory item are not clear in the guideline.

Moreover, although the guideline states that the basis for evaluating the cost of the stocks held by the City is the average cost, it does not provide any guidance to the reader in specific situations where the cost may be something other than the simple purchase cost. For example, managers responsible for preparing inventory lists told us that they do not know how to establish the cost of the items that were either recuperated on the City’s territory (e.g., following replacements) or restored by blue-collar workers. The items included in stock may be evaluated in an inappropriate manner, resulting in incorrect entries in the accounting books.

Fiscal Year-end Procedures Guide

The *Guide des procédures de fin d'exercice financier* [TRANSLATION: *Fiscal Year-end Procedures Guide*], which is produced annually by the Service des finances for the users in

the business units concerned, covers various topics pertaining to the preparation of the City's financial statements.

Yet the guide does not specify who it is intended for nor which individuals should apply it. Only four of the 13 managers we met from the boroughs audited said that they were aware of the existence of this guide.

In the previous section, we observed that the notion of “depot” and its accounting method as required by the Service des finances were poorly understood by several of the managers we met. When examining the guide, we found little information in this respect to help managers better understand this notion.

Moreover, we noted that the 2013 *Fiscal Year-end Procedures Guide* does not require formal accounting, in the form of detailed lists, on the part of the business units with respect to the goods they hold at the end of the year. Yet, this information is essential in order to ensure adequate valuations and accounting of the goods held by the various boroughs and central departments at the end of the year. For this reason, in a recommendation letter dated October 29, 2014, and addressed to the manager and treasurer of the Service des finances, we submitted recommendations that were to have been taken into consideration rapidly for the preparation of the financial statements as of December 31, 2014. Among other things, they concerned:

- Clarification of the concepts of “stock” and “depot”;
- Specifications with respect to the means of establishing the cost of stocks;
- The procedure to be used by the business units for making physical counts and preparing inventory lists (lists authorized by the managers).

Most of these recommendations were taken into consideration in the 2014 version of the procedures guide, which was distributed to the business units. Nevertheless, in our opinion, another revision of the guide is necessary. Indeed, examples of what constitutes an inventory to be recorded at the end of the year were added. However, some of these examples are not adequate. For example, the guide stipulates that elements such as street lights and fire hydrants should be included in the year-end inventories. Yet, by their very nature, these types of goods must be considered fixed assets that have to be amortized over several years and presented as long-term assets. They are stocks only when they are ordered and stored by the borough which has exclusive control over supplying them and installing them throughout the City (e.g., street lights), until they are installed permanently on the sites in question.

The findings reported in the previous sections reveal a general problem that we have identified in the four documents we examined:

- the *Politique d'approvisionnement* [TRANSLATION: Procurement policy];
- The *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide];
- The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
- The *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide];

This problem has led to two principal findings:

- The lack of precision in the definition of terms and the means of accounting for them, which results in confusion and a lack of understanding on the part of the managers;
- Inconsistencies in the recommended approaches in these documents.

More specifically, we noted the following facts:

- The terms “depot,” “stock” and “inventory” used in the documents are confusing.
 - The *Procurement Policy* treats the term “stock” in its totality and includes in this term the notions of “main store,” “satellite store” and “depot.” The *Inventory Accounting Guideline* makes a distinction between the notion of “stock” and the notion of “depot.” However, as we mentioned in the previous section, the managers do not understand this distinction clearly, which leads to non-compliance in the physical counts made of the depots at the end of the year.
 - The *Procurement Policy* does not specify the role of the Service des finances in the City’s procurement process, which includes “stock management.”
 - The *Stock Management Reference Guide* refers to the *Procurement Policy*. However, it includes a new notion, “inventory,” and we do not know if this notion explicitly includes the “stock” element. Moreover, the definition provided in the guide states that the inventory is the [TRANSLATION] “list of all of the items stored to be used later on a short-, medium- and long-term basis. The items are inventoried in stores and depots.” This definition is, moreover, repeated in the *Inventory Accounting Guideline*, but with the term “stores” replaced by “stocks.” An informed reader could deduce that the notion of “store” corresponds to the notion of “stock.” However, other readers could have different interpretations. Yet, according to the generally accepted accounting principles that the City must apply when preparing its financial statements, goods intended to be used on a medium- or long-term basis must normally be considered

capital assets. As a result, there is a disparity, for example, with street lights and fire hydrants being considered as “stocks” by one borough and as “capital assets” by the other boroughs. In the City’s books, assets such as street lights and fire hydrants should be recorded as capital assets and amortized from the time they are used in order to ensure uniform accounting of items of the same nature in the City’s consolidated financial statements.

Furthermore, there is no mention in the document as to what is meant by the notions “short-term,” “medium-term” and “long-term,” adding to the confusion the managers might experience when applying the prescribed guidelines.

- In the *Inventory Accounting Guideline*, the notions of “stock” and “depot” are briefly explained, but this explanation is insufficient and does not include concrete examples. This same observation applies to the *Fiscal Year-end Procedures Guide*.

In short, we wanted to demonstrate, with brief illustrations, several inconsistencies and disparities in the four documents consulted, the absence of concrete examples and a lack of clear procedures to be followed by the managers and users throughout the procurement cycle, which includes stock management.

Moreover, none of the documents provides a clear definition of capital asset.

Furthermore, the 2014 version of the procedures guide requires the information about the basis for the valuation of the stock to be indicated on the inventory list and the example provided in the guide refers, among other things, to the notion of cost established on a “first in, first out” basis, whereas the average cost is the accounting method retained by the City to present its stocks in the financial statements.

The guide does not require the inventory lists to be approved by managers.

4.1.3.B. Recommendation

- We recommend that the Service de l'approvisionnement work with the Service des finances to make a complete revision of the following documents:
- The *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide];
- The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
- The *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide];

in order to create a unique and complete reference framework for the acquisition, receipt, physical handling, accounting and protection of stocks.

Business units' responses:

SERVICE DE L'APPROVISIONNEMENT ET SERVICE DES FINANCES

[TRANSLATION] Creation of a coordination committee to completely revise and update the following documents:

- *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide];
- *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline];
- *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide].

Make sure that the documents are complete and enable the managers of the business units to adequately fulfil their responsibilities with respect to managing and evaluating inventories.

P.S. The definition of the new business model is a prerequisite to this action. (Planned completion: December 2016)

4.1.3.C. Recommendation

We recommend that the Service des finances work with the Service de l’approvisionnement to:

- clarify, in this new unique reference framework, the definitions of the terms “depot,” “inventory,” “stock” and “capital asset” and specify the major guidelines to be used to establish the categories to be developed;
- specify in the application procedures which stakeholders are concerned;
- provide examples of the items to be counted that will apply in a general manner to all of the business units and, as needed, provide examples that are closer to the reality of certain business units;
- make sure that the accounting procedure integrated in the 2014 version of the guide (count and detailed lists) is covered by the application procedures and make sure that it is used by all of the business units targeted, so that the stocks indicated in the financial statements clearly reflect the actual stocks held at the end of the year;
- make sure that all of the business units are familiar with and apply the application procedures.

Business units’ responses:

SERVICE DES FINANCES ET SERVICE DE L’APPROVISIONNEMENT

[TRANSLATION] The coordination committee and the members of the SPO will clarify the terms “depot,” “inventory,” “stocks” and “capital assets” and provide broad guidelines for establishing the categories that have to be developed. (Planned completion: December 2015)

Preliminary revision as part of the annual revision of the fiscal year-end procedures guide. (Planned completion: December 2015)

Revision of the guideline and guide so as to:

- *specify who it applies to;*
- *make sure that accountability is covered by the application terms. (Planned completion: December 2016)*

Provide examples of items to be counted. (Planned completion: December 2015)

4.2. Application of the Current Stock Management Framework

4.2.1. Stock Management System

4.2.1.A. Background and Findings

The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline], issued by the Service des finances, and the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide], produced by the Service de l'approvisionnement, indicate that a permanent stock management system is required. The Guideline stipulates, among other things, that a permanent inventory record must be established and that, when the inventory module of SIMON (the City's integrated management system) does not meet their needs, the business units must, along with the Service de l'approvisionnement and the Service des finances, have the use of another system authorized. Moreover, the Guideline also states that the record must specifically provide the following information: description of each item, location, quantities on hand, the unit cost and the total cost of the inventory. Moreover, the guideline and the reference guide state that, for the purposes of establishing the total cost of the inventory, any obsolescence of the stocks on hand must be indicated.

We tried to determine which tools are used by the managers of the depots in the divisions of the four boroughs audited, in order to comply with the requirements.⁸

We noted that, in the divisions visited, there is no permanent inventory record, either computerized or manual. Therefore, once the merchandise is delivered to the depots, there is no documented monitoring of incoming and outgoing items or of stock quantities. Also, the managers we met indicated that they did not have detailed lists of the items in stock at the end of 2013, indicating locations, costs and the valuation method used to determine their cost. Moreover, these managers did not analyze or evaluate the obsolescence of the stocks for which they were responsible. We conducted a survey of directors of the 19 boroughs and 7 departments holding stocks in order to determine whether they had a detailed list of the stocks they held at the end of 2013 and whether they had analyzed and evaluated their obsolescence. Only two central departments were able to provide a list of the items in stock, indicating all of the elements required under the guideline. Moreover, three of the business units analyzed and evaluated the obsolescence of their stocks.

⁸ The material contained in the satellite store of the Saint-Laurent borough (located in the buildings that house the Direction des travaux publics) does not belong to the borough but to the Service de l'approvisionnement. Its stock is managed by the Service de l'approvisionnement using the "inventory" module of the City's integrated system and is not covered by our audit.

It should be noted that, of the four boroughs visited, only the Division de la voirie of the Ville-Marie borough notes the removal of waterworks supplies from the inventory on work orders (for purposes other than tracking inventory). In our opinion, these work orders, as they are currently used, do not provide a reliable basis for supporting the items removed from inventory for waterworks activities since, among other things:

- they are not prepared systematically every time something is withdrawn from inventory;
- they are not numbered;
- they are completed by the blue-collar workers assigned to do the work, but there is no sign of approval by a supervisor;
- they are often incomplete since they do not always indicate the quantities used and the exact names of the items (often, abbreviations are used).

These situations are problematic since goods could be lost or stolen without being correctly identified.

4.2.1.B. Recommendation

We recommend that the Service des finances work with the Service de l’approvisionnement to:

- make sure that all of the business units with an inventory of goods, in the form of either “stocks” or “depots,” implement a permanent inventory register when required and specify the means for using such a register;
- disseminate the rules concerning the analysis and evaluation of the obsolescence of stocks and make sure the rules are applied.

Business units’ responses:

SERVICE DES FINANCES ET SERVICE DE L’APPROVISIONNEMENT

[TRANSLATION] Implement a permanent inventory record in the depots, when required, and specify the procedure for using such a record. (Planned completion: progressive implementation from 2015 to 2019)

P.S. The definition of the new business model and the deployment of the computer solution are prerequisites to this action. (Planned completion: December 2019)

Create an administrative framework based on the procedure for handling obsolescence used by the Division logistique.

Distribute the administrative framework to the depots, along with rules concerning the analysis and evaluation of inventory obsolescence.

Before the framework is distributed, we need an overall picture of all the storage sites for inventory belonging to the City. **(Planned completion: December 2015)**

4.2.1.C. Recommendation

We recommend that the Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie, Saint-Laurent and Ville-Marie boroughs:

- implement a permanent inventory record when required and produce inventory lists including all of the pertinent information required;
- analyze and evaluate the obsolescence of the stocks they hold.

Business units' responses:

MERCIER–HOCHELAGA-MAISONNEUVE BOROUGH

[TRANSLATION] Since this concerns depots, a permanent inventory is not required.

Nevertheless, we plan to implement an inventory record so as to be able to produce an annual inventory at the end of the fiscal year.

*With a record of inventoried material and products, we will be able to analyze and determine their obsolescence. **(Planned completion: December 2015 for Voirie and December 2016 for Parcs)***

Auditor General's Comments:

We feel that the completion date (December 2016) determined by the Mercier–Hochelaga-Maisonneuve borough for implementing a record for the purpose of taking an annual inventory of the depots of the Division des parcs et de l'horticulture is too late. The inventory record must be implemented for December 2015 since it is important to implement this oversight rapidly in order to determine the nature, quantity and value of the stocks held in these depots so as to prevent any loss, waste or theft of the assets held and to ensure an adequate evaluation of the obsolescence of the stocks held by the borough.

ROSEMONT–LA PETITE-PATRIE BOROUGH

[TRANSLATION] Inventory list and obsolescence of merchandise

*The Division des ressources financières will contact the Service de l'approvisionnement to have them support our managers with respect to identifying the merchandise that must be considered when taking inventory and the criteria for obsolescence. Moreover, a resource person will have to be identified by the Service de l'approvisionnement to answer specific questions that may arise. **(Planned completion: July 2015)***

The Division des ressources financières will improve the standard form so as to:

- ensure that it complies with the level of detail required by the inventory accounting guideline / fiscal year-end procedures guide;
- include a tab for indicating the obsolete merchandise. **(Planned completion: July 2015)**

The inventory will be recorded on the standard form.

The division managers will:

- keep an up-to-date list of the depots containing the material and the names of the people responsible for these depots and their inventories;
- identify the staff responsible for taking inventory;
- present and explain the need to correctly complete the count document to the staff assigned to taking inventory. **(Planned completion: November 2015)**

SAINT-LAURENT BOROUGH

[TRANSLATION] Update the inventory taken as of December 31, 2015, on a quarterly basis.

First quarterly count to be made on March 31, 2015. **(Planned completion: April 2015)**

As of December 31 each year, evaluate the obsolescence of the inventories. **(Planned completion: January 2016)**

VILLE-MARIE BOROUGH

[TRANSLATION] Given that certain recommendations concern the revision of inventory management documents to be done by the Service de l'approvisionnement jointly with the Services des finances, the borough will adjust its practices in keeping with the new procedures, particularly with respect to implementing a permanent record for the depots. **(Planned completion: Once the tools and guidelines are received from the corporate divisions involved)**

Given that the operations of the Direction des travaux publics (and particularly the Service de l'aqueduc) require the borough to maintain a minimum level of certain items, when the count is made of the depots at the end of the year, it will be compared with the count for 2014. This will serve to target any surpluses and adjust procurement accordingly. **(Planned completion: December 2015)**

4.2.2. Frequency of Physical Counts of Stocks

4.2.2.A. Background and Findings

The *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline], issued by the Service des finances, and the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide], produced by the Service de

l'approvisionnement, indicate that items in stock must be counted physically at least once a year. However, we noted that no period is indicated. Ideally, in order to obtain an accurate picture of the value of the stocks to be reflected in the books, the count should be made close to December 31 of each year, date on which the City's fiscal year ends. We tried to determine whether such a count had been made in the four boroughs visited and, more generally, in the 19 boroughs and the seven central departments holding stocks.⁹

Mercier–Hochelaga-Maisonneuve borough

We asked the borough management to confirm whether or not the managers had made a physical count and whether detailed lists were available. Based on the information obtained, no inventory was made in 2013 or during the course of 2014, up to the date on which our work ended, in October 2014.

Rosemont–La Petite-Patrie borough

We noted that approaches vary from one division to another in the same borough.

Indeed, the manager responsible for the Division de l'entretien de l'éclairage, de la signalisation et du marquage de la chaussée asked for physical counts to be made at the end of the year in the depots held by his division. We obtained the results of this inventory. Goods in stock were not listed in a detailed manner. Instead, an "overall value" had been estimated per asset category.

The manager we met from the Division de la voirie told us that she had asked the foremen to evaluate the value of the goods in stock at the end of the year, based on a visual inspection, so that it could be reported to the Service des finances.

Moreover, the managers of the Division des parcs et des installations indicated that they had made no inventory count and had estimated the value of the goods held in each depot at less than \$75,000, the threshold at which the Service des finances requires a physical count at the end of the year, according to an email sent in November 2013 to the business units holding stocks. After learning of this email, we asked the manager and treasurer of the Service des finances, in a letter we sent on October 29, 2014, not to use the notion of meaningful threshold in the requests sent to the business units for information to prepare the

⁹ The 2014 version of the *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide] of the Service des finances states that physical counts must be made of the inventory at the end of the fiscal year by the business units that have depots. At the time our audit report was being prepared, it was too early for us to be able to determine whether work pertaining to this request had been undertaken by the business units.

financial statements since any stock must be recorded as an asset in the books, regardless of value or quantity. The Service des finances followed up on our recommendation in an email sent to the boroughs and central departments concerning the information requested with respect to year-end inventories for the preparation of the 2014 financial statements.

Saint-Laurent borough

During our visits to the divisions concerned, the managers we met indicated that they had not asked for physical counts of the inventory for 2013 or during the course of 2014, up to the date on which our audit ended, in October 2014.

Ville-Marie borough

The manager of the Division des parcs et de l'horticulture told us that he had asked students hired in the summer of 2013 to count the items held in stock by his division. This inventory consisted solely of a count, and no financial value was indicated in the list for these items. He also told us that no count has been made since that date.

At the same time, the managers of the Division de la voirie told us that they had made a general count in December 2012, but only of items pertaining to waterworks, sewers and bulk materials. The employees evaluated the quantities in stock, but without making a count. The managers told us that they used the 2012 count to estimate the value of the stocks on hand as of December 31, 2013, a value which has not changed in the books, since they determined that the stock levels were basically the same as the previous year. However, no documentation supports this decision.

In order to determine the extent to which the rule requiring a physical inventory count once a year is observed throughout the City, we surveyed the managers of the 19 boroughs and seven central departments that hold stocks. According to the information obtained, only 11 of the boroughs and four of the central departments indicated that they made a total or partial count of the goods for which they are responsible at the end of 2013 or during the course of 2014 (until the end of our work on the survey, in August 2014) whereas, based on our knowledge of the activities of the business units or the similarity of their operations, counts should have been made in all cases.

4.2.2.B. Recommendation

We recommend that the Service des finances work with the Service de l’approvisionnement to make sure that all of the business units that hold goods in inventory make a physical inventory count, at least once a year. It is important, at the time of the inventory, to ensure the adequate separation of duties. Thus, the person who handles the goods in inventory should not be the one who records the goods in the inventory record. In the event that the permanent inventory record required has not been implemented, it would be pertinent for the count to be made at the end of the fiscal year or a date close to it.

Business units’ responses:

SERVICE DES FINANCES ET SERVICE DE L’APPROVISIONNEMENT

[TRANSLATION] Make sure that the business units holding goods in inventory undertake an adequate physical count at last once a year.

An overall picture of all the inventory storage sites belonging to the City is required prior to this. (Planned completion: December 2015)

4.2.2.C. Recommendation

We recommend that the boroughs of Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie, Saint-Laurent and Ville-Marie make a count of their items in stock at least once a year. In the event that the permanent inventory record is not required, the count would have to be made at the end of the fiscal year or a date close to it.

Business units’ responses:

MERCIER–HOCHELAGA-MAISONNEUVE BOROUGH

[TRANSLATION] The physical count of the items in inventory will be made as close as possible to December 31 each year.

The count will be indicated in the inventory record. (Planned completion: December 2015 for Voirie and December 2016 for Parcs)

Auditor General’s Comments:

We feel that the planned completion date (December 2016) determined by the Mercier–Hochelaga-Maisonneuve borough for implementing a record for the purpose of taking an annual inventory of the depots of the Division des parcs et de l’horticulture is too late. The inventory record must be implemented for December 2015 since it is important to implement this oversight rapidly in order to determine the nature,

quantity and value of the stocks held in these depots so as to prevent any loss, waste or theft of the assets held and to ensure an adequate evaluation of the obsolescence of the stocks held by the borough.

ROSEMONT–LA PETITE-PATRIE BOROUGH

[TRANSLATION] For all of the divisions, steps will be taken to ensure that physical inventory counts are undertaken before the end of the year, namely in November.

An inventory will be taken for the Division des parcs since all of the merchandise must be considered and the threshold of \$75,000 no longer exists. (Planned completion: November 2015)

SAINT-LAURENT BOROUGH

[TRANSLATION] Count inventoried items on December 31 each year. (Planned completion: December 2016)

VILLE-MARIE BOROUGH

Division des ressources financières et matérielles

[TRANSLATION] A general presentation was made to the management committee and a second one was adapted and given to the managers of the Direction des travaux publics to present the findings and the guidelines for progress concerning inventory management.

The count tool available from the Service de l'approvisionnement was improved and adapted by the Division des ressources financières. It was presented to the managers of the Direction des travaux publics. They were also coached in this undertaking by a professional employee from the Division des ressources financières. (Completed)

Direction des travaux publics

With respect to the goods used for water main and sewer activities, a specific file was developed to facilitate taking inventory and evaluating the related amounts. This document includes photos of various items to facilitate counting. (Completed)

The managers responsible for the other activities of the Direction des travaux publics counted the items for which they are responsible. (Completed)

4.2.3. Security and Access to Storage Sites

4.2.3.A. Background and Findings

According to the City's *Politique d'approvisionnement* [TRANSLATION: Procurement Policy] one of the things for which the Service de l'approvisionnement is responsible is managing the stocks of products in the main store, the satellite stores and the depots, in keeping with the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide]. However, clear and precise instructions concerning access security and

management are lacking for both “stocks” and “depots.” Certain general principles concerning the protection of goods held in stock are provided in the reference guide.

Our visits to the various sites were intended specifically to determine the extent to which security measures exist and are properly applied in an ongoing manner. Generally, the depots visited are equipped with gates and doors that block access to these storage sites. The doors can be opened with magnetic cards or keys. We did, however, note that the planned monitoring is not always properly applied and that there are shortcomings with respect to both the protection and surveillance of the goods in terms of managing access to the various sites.

4.2.3.B. Recommendation

We recommend that the Service de l’approvisionnement:

- **establish and give the managers of the business units that hold stocks clear, uniform and complete rules with respect to the security of the storage sites in keeping with the City’s *Politique d’approvisionnement* [TRANSLATION: Procurement Policy];**
- **make sure that these rules are applied.**

Business unit’s response:

[TRANSLATION] Establish more appropriate means and rules for ensuring the security of and access to storage sites.

Send a memo to the business units reminding them about the security of municipal buildings, in keeping with the administrative frameworks:

- *Sécurité dans les édifices municipaux [TRANSLATION: Security in municipal buildings] (POLICY) - C-OG-SCARM-PA-14-001;*
- *Rôles, responsabilités et reddition de comptes en matière de sécurité dans les édifices municipaux [TRANSLATION: Roles, responsibilities and accountability with respect to security in municipal buildings] (GUIDELINE) - C-OG-SCARM-D-14-001.*

Enhance the administrative frameworks mentioned to include a section on securing goods in buildings.

Make sure that the established rules are applied. (Planned completion: December 2016)

4.2.3.C. Recommendation

We recommend that, while they are waiting for the rules to be established by the Service de l'approvisionnement, the Mercier–Hochelaga-Maisonneuve, Rosemont–La Petite-Patrie, Saint-Laurent and Ville-Marie boroughs make sure that access to the stocks for which they are responsible is protected and limited to authorized personnel.

Business units' responses:

MERCIER–HOCHELAGA-MAISONNEUVE BOROUGH

[TRANSLATION] An action plan aimed at correcting the identified shortcomings was produced. (Planned completion: December 2017)

Auditor General's Comments:

We feel that the planned completion date (December 2017) determined by the Mercier–Hochelaga-Maisonneuve borough for implementing all of the procedures to ensure the adequate security of access to its depots is too late. Certain measures could be implemented immediately to ensure that access to inventories is limited to authorized individuals at all times, in order to mitigate the risks of theft, vandalism and unauthorized entry.

ROSEMONT–LA PETITE-PATRIE BOROUGH

[TRANSLATION] An action plan aimed at correcting the identified shortcomings was produced. (Planned completion: November 2015)

SAINT-LAURENT BOROUGH

[TRANSLATION] An action plan aimed at correcting the identified shortcomings was produced. (Planned completion: June 2015 to September 2015)

VILLE-MARIE BOROUGH

[TRANSLATION] An action plan aimed at correcting the identified shortcomings was produced. (Completed)

5. General Conclusion

Our audit revealed a situation giving cause for concern for the City. The lack of coordination between the two departments that play a major role in the management of procurement and the monitoring of the use of stocks, namely the Service de l'approvisionnement and the Service des finances, deprives the City, and more specifically the business units concerned, of a unique, complete and useful reference framework.

We noted that the documents prepared by the Service de l'approvisionnement and by the Service des finances lack consistency, are often incomplete and do not serve as effective reference tools that enable the business units to:

- adequately monitor the stocks for which they are responsible;
- ensure adequate accounting with respect to the use, valuation and appropriate presentation of the stocks remaining at the end of the fiscal year for the purpose of preparing financial statements that are exempt from inaccuracies;
- ensure that access to these stocks is limited to authorized individuals in keeping with their duties.

Indeed, the current management framework includes three documents pertaining to the application of the City's *Politique d'approvisionnement* [TRANSLATION: Procurement Policy] and related topics. Thus, the *Directive sur la comptabilisation des inventaires* [TRANSLATION: Inventory Accounting Guideline], the *Guide de référence en gestion des stocks* [TRANSLATION: Stock Management Reference Guide] and the *Guide des procédures de fin d'exercice financier* [TRANSLATION: Fiscal Year-end Procedures Guide] stipulate the requirements and provide information concerning the management and recording of inventories for the managers concerned.

The managers of each of the business units must therefore be familiar with and, above all, understand the objectives of, each of these three documents in order to fulfil their stock management responsibilities adequately, which is not simple since the three documents do not contain all of the sufficient and necessary information and occasionally cause confusion with respect to some of the terms used. There is therefore a high risk of error. Given this situation, it is our opinion that these documents must be revised in order to provide a unique and complete reference framework for the managers.

With respect to the resulting non-compliance situations, in addition to the effect they have on the information provided under the "stocks" item in the City's financial statements, there are also risks pertaining to possible theft and vandalism of these stocks, given the lack of effective measures concerning the security and surveillance of the storage sites.

The managers of each business unit are responsible for ensuring adequate monitoring of the stocks made available to them and effective surveillance of the storage sites in order to make sure that these stocks are used solely for the purposes for which they are intended and that access to the goods is restricted to authorized individuals. During our work, we noted several shortcomings: the movement of stocks is not always monitored and surveillance is not always adequate to restrict unauthorized access to the stored inventories.