

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: July 15, 2010

SUBJECT: INTERNAL AUDIT REPORT – PROPERTY DEVELOPMENT
DEPARTMENT

INFORMATION ITEM

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.

Richard G. Beecroft
Chief Auditor

July 15, 2010
01-23

Attachment – Internal Audit Report

EXECUTIVE BRANCH

PROPERTY DEVELOPMENT DEPARTMENT

Covering Period
January 2008 to September 2009

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EXECUTIVE SUMMARY

This audit assessed the management and operational controls of the Property Development Department. An exit meeting was held on March 6, 2010 with the General Manager – Executive Branch and the Manager of Property Development to discuss the findings.

Audit's review of the management of the commuter parking lot program concluded that there were opportunities for improvement in general maintenance, administrative costs and profitability of commuter parking lots. Management has agreed with Audit's recommendations and has made a commitment to taking action in addressing noted areas of concern.

The Toronto Coach Terminal, which is also managed by the Property Development Department, acquired the luggage lockers in May 2009, and assumed full responsibility for maintenance and repairs while retaining all revenue from the locker operation. Audit determined that the controls over the management of the luggage lockers were weak. Management agreed with the noted concerns and has implemented the appropriate changes to address them.

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

Richard G. Beecroft
Chief Auditor

Elmer Csaszar
Audit Manager

FOREWORD

The Property Development Department is responsible for the administration and management of the TTC's property, land development, retail leasing and commuter parking, and manages the operation of the Toronto Coach Terminal Inc.

AUDIT SCOPE AND OBJECTIVES

SCOPE: The audit included a review of the key management, operational and financial controls of the Property Development Department for the period January 2008 to September 2009.

OBJECTIVES: To assess the management 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 operational activities.

To evaluate the adequacy of financial controls to ensure:

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

AUDITED ITEMS FOUND ACCEPTABLE

KEY CONTROL	FINDING
Property Services	Processes for reviewing and coordinating land and property development activities are adequate.
Bus Ticket Sales	Ticket sales and customer service are provided in an efficient manner.
Telephone Information	Accurate and up-to-date information is provided to customers on a timely basis.
Accounting Services	Controls over the recording and monitoring of Toronto Coach Terminal Inc. financial transactions are adequate.
Terminal Supervision	Supervision is efficiently and effectively exercised in monitoring the Ticket Sales workforce, and the operation of the Terminal.
Terminal Building Maintenance	Work orders are issued for any items requiring repair and sent to Plant Maintenance Department for processing.
Purchasing	Purchasing is adequately monitored and controlled.
Records Management	Records are maintained in accordance with legislated retention and disposal requirements.
Payroll and Attendance	Employee payroll and attendance is accurately recorded, monitored and approved in accordance with TTC policy.
Management Information Systems	Accurate and reliable information systems are in place to support reporting.
Security	Staff is aware of security practices and measures that are in place to protect customers, employees and assets.
Asset Control	Assets are recorded, controlled and monitored.
Training and Development	Plans are in place to provide employees with appropriate training and development.

AUDITED ITEMS FOUND UNACCEPTABLE

FINDING #1

COMMUTER PARKING

OBJECTIVE: To assess the management of the commuter parking lot program for efficiency, effectiveness and economy.

ANALYSIS: A contract for the administration and maintenance of the TTC commuter parking lots was awarded to the Toronto Parking Authority (TPA) in July 2007. The contract is for a 10 year period and has an upset limit of \$28,645,565. The Property Development Department (PDD) is responsible for managing the contract to ensure that all of the commuter lots are maintained to acceptable standards and all revenue is collected and received by the TTC. Audit reviewed the processes and controls employed by PDD to manage the contract and concluded that the management of the contract should be improved.

The importance of a more proactive management of the TPA contract becomes apparent since the release of the Toronto Auditor General's audit report dated March 16, 2009 on the TPA. The report had 16 recommendations, and many of them should be of concern to PDD.

Each year TPA and PDD jointly develop an operating budget to address the repair, maintenance and administrative needs of the parking lots. The 2008 budget was approved at \$1,497,049 excluding snow clearing and hydro costs. Audit reviewed the actual costs incurred by TPA based on their 2008 records and noted the following:

General Maintenance

Audit performed visual inspections on all 30 commuter parking lots in October 2009. The conditions of 25 of these lots have the appearance of neglect and being under maintained. For example, we observed:

- Extensive cracking in the asphalt with some cracks large enough to be considered tripping hazards.
- Fencing that is either broken or in disrepair such that security is ineffective, and guide rails that are broken and rusted with some situated in a manner that is hazardous to customers and vehicles.

- Garbage uncollected from containers and grounds.
- Weeds are uncontrolled, grass is uncut, and trees and shrubs are not pruned.
- Signage is faded and/or contains graffiti that makes emergency phone numbers and other information difficult to read.
- At 9 parking lots accessible by gate, there were 82 vehicles parked between 4am and 5am on October 7, 2009 that had not been ticketed by TPA, but should have been per the contract.

The budget for the above maintenance items (with the exception of pavement repair) were all under spent in 2008 indicating that the required and anticipated maintenance was not carried out.

A significant overrun occurred in the item for 'pavement repairs'. The original budget amount of \$13,411 increased to an actual cost of \$337,243. TPA was able to support the final cost by providing invoices of the work performed. PDD involvement in approving the need or the extra costs involved did not take place until the work was completed. Furthermore, when PDD finally reviewed the extra costs, they determined that the majority of the costs should have been capitalized.

Administrative Costs

A significant part of the 2008 annual budget was for overhead related items such as supervisor salaries (\$487,140); administration (\$91,188); and car allowances (\$75,831). Collectively these costs represent a disproportionate amount of the total budget compared to maintenance and repair items. Although TPA was able to provide support for all costs, their accounting process does not provide assurance that the claimed costs all pertain to the TTC commuter parking lot operation. For example, the supervisors do not have detailed time sheets and the mileage claim forms do not identify the lots visited or the start and end points of the trip(s).

Value-for-money cannot be achieved when overhead and administrative costs are disproportionately high.

Profitability of Commuter Parking Lots

On April 1, 2009 the use of a Metropass to access parking at TTC parking lots was discontinued and paid parking commenced as per the Commission's approval in August 2008. The total monthly gross revenue from all parking lots has since increased to \$700,000 from \$200,000 approximate. Audit's analysis of individual parking lot revenues, indicate that profits are not being maximized. For example, the Kipling Westwood Lot generates monthly revenue of approximately \$2,000 but incurs monthly expenses of \$3,000 for the rental of 6 pay and display machines in addition to the common maintenance costs.

The total capacity of all the lots in July 2009 was stated to be 13,637 spaces. Overall parking lot usage was reported at 62%. While some parking lots are at 100% capacity others are as low as 3%. Fees for parking range from a low of \$3 to a high of \$12.

RECOMMENDATIONS:

Management should ensure that:

- (a) The Toronto Auditor General's audit reports are reviewed by the Property Development Department and the relevant recommendations are implemented.
- (b) Safety related parking lot deficiencies are addressed immediately.
- (c) The annual parking lot budget provides value for money.
- (d) All the parking lots are reviewed for profitability and based on this a business plan is developed for each parking lot.

MANAGEMENT'S RESPONSE:

- (a) **TORONTO AUDITOR GENERAL'S REPORTS – Agree**

ACTION: Management will review the Toronto Auditor General's reports and implement all relevant recommendations affecting TTC.

RESPONSIBILITY: Leasing and Commuter Parking Co-ordinator

COMPLETION DATE: December, 2010

(b) GENERAL MAINTENANCE – Agree

It was concluded that \$263,719 of the total expenditure of \$337,243 for “payment repairs” had been capitalized in 2008 and 2009 under the gate-arm replacement project. The remaining amount of \$73,524 had been charged to the operating budget.

Management has implemented a ‘monthly’ on-site inspection program. These inspections are being conducted at each commuter parking lot, in conjunction with TPA representation, and will identify and record the condition of the lots and maintenance/repairs. Safety related repairs will be identified and addressed more readily as part of these inspections.

A comprehensive monthly inspection report will be prepared including photographs, and formally issued to TPA for action, including a request for costing details and work scheduling.

ACTION: An on-site monthly inspection program has been initiated. The program will allow staff to record and identify safety related maintenance issues including TPA’s contract compliance and operating/capital budget performance.

RESPONSIBILITY: Leasing and Commuter Parking Co-ordinator

COMPLETION DATE: Completed

STATUS: Monthly inspection program is ongoing.

(c) ADMINISTRATIVE COSTS - Agree

TPA administrative costs have been established through the contract negotiations process and included allocation for 10½ positions assigned to the TPA workforce to manage the operations, credit card processing, maintenance, monitoring and supervision of the TTC commuter parking portfolio.

ACTION: Management will review the negotiated TPA workforce assigned to TTC commuter lots, including the provisions of the contract, including the scope of services to determine contractual mechanisms available to amend workforce levels. Subsequent adjustments to TPA workforce to better reflect the business and profitability of individual lots will be implemented as justified.

Management will meet with TPA management to determine the appropriate level of documentation required.

RESPONSIBILITY: Leasing and Commuter Parking Co-ordinator

COMPLETION DATE: December, 2010

(d) PROFITABILITY OF COMMUTER PARKING LOTS - *Agree*

As noted, as per Commission approval in August 2008, on April 1, 2009 TTC implemented a new pricing strategy, converting the gated parking lots from 'free' Metropass access to a 'cash' only system. This business model change placed TTC in a positive cash flow situation, realizing a significant profit overall and eliminating annual losses.

The audit noted the Kipling Westwood lot as an example of where revenue and are not maximized to ensure profitability, this lot was built to serve commuters on an interim basis while the construction of the Kipling/Islington Redevelopment project had been underway. The development has not commenced, however, in order to address the profitability and usage of the Westwood lot, management decided to close the lot on December 31, 2009.

In February 2010, parking rates for several poorly performing lots (Finch East & West, Leslie, Yorkdale Deck, and Kennedy) had been reduced to encourage usage. The results of the rate reductions will be included in the profitability analysis.

ACTION: Management will review the profitability of each lot and based on this a 'business plan' will be developed for implementation to ensure an operationally effective and cost efficient commuter parking system. This is part of the preparation of the annual operating budget, long-term capital budget, and the reconciling/monitoring of same.

RESPONSIBILITY: Leasing and Commuter Parking Co-ordinator

COMPLETION DATE: December, 2010

FINDING #2

LUGGAGE LOCKERS

OBJECTIVE: To determine that the luggage lockers at the bus terminal are managed efficiently and effectively.

ANALYSIS: The Toronto Coach Terminal (TCT) acquired the 231 luggage lockers from Canadian Locker Company Limited (CLC) on May 8, 2009, and assumed full responsibility for maintenance and repairs while retaining all revenue from the locker operation. Prior to this date TCT received only a percentage of the revenues and CLC was responsible for maintenance and repairs. Audit noted that since the acquisition, monthly revenue from lockers has tripled (280%). However, information pertaining to the expenses incurred is not formally being captured.

TCT has carried on with CLC procedures for locker administration. Audit reviewed the process and controls in place and determined that improvements are necessary. For example, meter readings are taken and recorded daily of each locker, however the readings are not used to reconcile revenue. Audit noted a shortfall of \$3,345 between the meter readings and the receipts for June and July.

Daily revenue receipts are based on the number of locker tokens sold by the two token dispensing machines. This number is not compared to the number of tokens used (meter readings). On the day (May 8, 2009) TCT assumed control of the locker operation an inventory of tokens was not taken, and therefore the number of tokens in circulation is not known.

The document used to record meter readings is used primarily to determine when customers store contents in excess of 24 hours. When this occurs, the locker is opened by TCT staff, the contents are removed and placed into storage and the key tumbler is removed from the locker. The locker is then unavailable for use until the key is returned. TCT have continued to use the CLC coding system when recording meter readings. Audit reviewed the meter reading sheets for June and July 2009 and noted inconsistencies and inaccuracies:

- There are 16 instances where a meter reading is lower than the previous day. This should not be possible since meters are designed to count only in the forward direction.

- There are 10 instances where meter readings are 10 or more counts higher than the previous day. It is improbable that there would be so many users of a locker in a single day.

Revenue is also derived from locker content storage. When contents are stored in excess of 24 hours they are removed from the lockers and placed into storage in a secure room. Customers claiming their belongings are required to produce the key to the locker and pay a storage fee of \$6/day. The review of the locker storage process based on storage information from May to August 2009 identified areas where controls are lacking or inadequate:

- On 25 occasions where the daily meter reading sheet indicated that a locker was emptied there was no entry in the record storage log that contents were stored.
- On 18 occasions where the record storage log indicated that items are stored but have not been claimed, the daily meter reading sheet indicated activity in the locker that should be out of service.

Without adequate controls Management cannot be assured that monies collected are accurately and properly accounted for.

RECOMMENDATIONS:

Management should ensure that adequate controls are developed for all aspects of the luggage locker process. Consideration should be given to:

- Reconciling daily meter readings with token sales.
- Taking inventory of tokens at regular intervals.
- Establishing a process for tracking maintenance and repair costs.
- Improving coding system to include all controlling actions, for example "contents removed to storage" or "placed into service" etc.
- Developing written instructions/procedures for the process and communicate to appropriate staff.

MANAGEMENT'S RESPONSE:

The takeover of the locker operation was part of a short-term business plan to help restore the TCT revenue base. At the time the takeover took effect, staff simply assumed the operational and administrative practices of the previous vendor. TCTI staff has initiated the following audit recommendations and are satisfied that the recommendations are achieving the audit controls required.

ACTION:

- Written instructions and procedures are in place including training procedures and processes for appropriate staff;
- Effective March 1, 2010, a process has been established to track and inventory locker tokens;
- Coding system has been improved to address the controlling actions for lockers and contents removed;
- Meter readings are taken daily are taken by Terminal Managers and Ticket Clerks on a daily basis and reported to TCT Finance section for reconciliation against monthly sales;
- Terminal staff has prepared a spreadsheet to track maintenance costs;
- Terminal Managers have prepared a daily working binder to crosscheck and verify locker activity and storage audit, including keying requirements and police auction removal records;

RESPONSIBILITY: Terminal Managers/Finance Section

COMPLETION DATE: Completed