

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: April 19, 2011

SUBJECT: INTERNAL AUDIT CAPITAL REPORT – MASONRY
STRUCTURE RESTORATION PROGRAM

INFORMATION ITEM

RECOMMENDATION

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

April 19, 2011
01-23

Attachment – Internal Audit Capital Report

TORONTO TRANSIT COMMISSION

TO Dick Beecroft

FROM Tom Perry

DATE November 25, 2010

SUBJECT Internal Audit – Masonry Structure Restoration Program

Summary

An audit of the Masonry Structure Restoration Program has been conducted. Audit work performed indicates adequate documentation has been maintained to support construction costs, consultant charges and TTC labour and non-labour expenditures. However, labour and non-labour expenditures incurred by the Plant Department for this project have not been allocated to the Masonry Structure Restoration Program.

Background

The Masonry Structure Restoration Program identifies existing masonry structures that require remediation work to avoid costly emergency repairs and structural deterioration. Restoration work is completed to ensure these facilities continue to provide a safe, functional work environment, and to bring them back to a “state of good repair”.

Management reports indicate total costs incurred for this project as at the end of August 2010 were \$2.8 M, comprised of the following:

Expenditures:	LTD (\$ Million)
Construction Costs	\$1.5
Consultant Costs	\$0.4
TTC Labour and Non-Labour	\$0.9
Total	\$2.8

Observations

Audit staff reviewed documentation, financial records, contract documents and other correspondence relating to the Masonry Structure Restoration Program. While construction and consultant costs were found to be supported and documented, TTC labour and non-labour expenditures incurred by the Plant Maintenance Department in 2010 to date were not charged to the project. Audit’s review indicated ineffective communication processes between the Construction Department, Plant and Capital Accounting with respect to the issuance of work orders, monitoring of progress, and controlling total costs for the program.

Audit estimates the value of capital Plant Maintenance charges misallocated as operating to be \$100K as at the end of August 2010. Authorization limits for three work assignments valued at \$238K completed by Plant Maintenance and charged were not properly documented. Furthermore, additional cost over-runs of approximately \$366K incurred as at end of August 2010 have not been properly authorized and documented.

Acceptable items noted included the following:

- Construction contract documents, including contract amendments, were properly approved and in order.
- Adequate justification for extra work performed was noted for sampled contract changes valued at \$300K. All extra work was properly authorized prior to commencement. Paid amounts were made in accordance with the terms of the contract.
- Audit's review of construction site field records, including monthly progress reports and minutes of meetings, revealed no outstanding issues or concerns. Quality control testing and inspection documentation reviewed indicated issues were appropriately addressed as per the contract and closed off. Contract Deficiency Reports have been prepared and the contractor has addressed the identified issues.
- Audit reviewed third-party financial records to confirm the all-inclusive billing rates charged for design work by consultant Yolles. No discrepancies or errors were noted.

Recommendation

Management should establish an improved working process between the Construction Department, Plant Maintenance and Capital Accounting and ensure all TTC labour and non-labour costs associated with the Masonry Structure Restoration Program are appropriately allocated and authorized.

Management Response

Plant Maintenance has initiated the transfer of the misallocated costs from the operating budget to the Masonry Structure Restoration project. A formalized progress reporting process is being established between Construction and Plant Maintenance Departments to track and allocate expenditures to appropriate project accounts.

Furthermore, management will improve coordination with Capital Accounting and ensure sufficient authority levels are in place for all expenditures including Plant Maintenance work.

Current Status:

In addition to the above response, management has taken steps since the audit report to close out the findings. Specifically, management has transferred the Plant Maintenance Department charges from the operating account to the Masonry Structures Restoration Program account.

Appropriate authority limit has been re-established for the three work assignments completed by the Plant Maintenance Department. It is noted that in 2006, old accounts for ongoing capital programs were closed and transferred to new capital accounts. However, in doing so, some information was inadvertently missed. This has since been reviewed and corrected by re-establishing appropriate authority limits for various work assignments under the Masonry Structures Restoration Program.

Finally, with respect to the cost overrun of approximately 366K, there are sufficient funds available in the capital budget. However, the issue was that there was insufficient authority in place. As the annual capital budgets are updated and approved, various work assignments' authority limits are updated accordingly to reflect the current capital budget. Over the last year, staff has been in discussion to transfer the task of the updating the authority limits for work assignments to the appropriate department. However, the discussion has not been finalized and consequently, it is noted that some work assignment authority levels have not been updated appropriately. The management has decided to maintain this task with the Construction Department and accordingly, all related work assignment authority levels have been updated to reflect the current approved budget.

Auditor
Internal Audit
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