

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: April 30, 2012

SUBJECT: INTERNAL AUDIT – FINANCE DEPARTMENT - CAPITAL
ACCOUNTING SECTION

INFORMATION ITEM

RECOMMENDATION

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

Joseph L. Kennelly
Chief Auditor (Acting)

April 30, 2012
01-27

Attachment – Internal Audit Report

TORONTO TRANSIT COMMISSION

TO R. Beecroft
FROM C. Leach
DATE October 17, 2011
SUBJECT Internal Audit re: Finance – Capital Accounting Section

The audit of the Capital Accounting section of the Finance Department is now complete. The results of the audit tests indicate the section is well-managed, and internal controls are functioning satisfactorily. Therefore, we concluded our audit work at the end of the Survey Report phase.

However, during the Survey Report phase, Audit identified the need for Management to review tasks performed by Field Audit Staff to ensure processes are efficient, risk-based, value-added and properly documented. Specifically, Management should consider the following:

Site Visits

The process and procedures followed by the Field Auditor for identifying, prioritizing and scheduling potential site visit audits should be formally documented as part of standard operating procedures. Selected audits should be rationalized in accordance with formal risk criteria, and coordinated to ensure timely completion and coverage. Performance measures for site visit activities should be developed and monitored by Management to ensure the Field Auditor is held accountable for the process.

Procedures performed during site visits should ensure sufficient, objective evidence is gathered to determine whether contract terms are being followed, including adherence to inspection, deficiency reporting and product submittal processes where applicable. The results of all site visits should be summarized and formally communicated to appropriate parties. Any outstanding issues or concerns noted during the site visits should include follow-up and responses from Management acknowledging the identified issues.

Certificates of Payment

Extensive time is currently spent by Field Audit Staff reviewing the accuracy of calculations for all (100%) Certificates of Payment (COP's), and preparing Excel spread-sheets to track holdback amounts. However, holdback and other calculations are generated by the Contract Management System (CMS) and are subject to multiple levels of review by Contract

Administration, Project/Site Staff and Senior Management. As such, the risk of holdback and other calculation errors going undetected prior to COP submission to Capital Accounting Staff is low, rendering a 100% audit approach inefficient.

Instead, Field Audit Staff should perform audit procedures that ensure contract adherence, and assess the adequacy and consistency of processes being followed by TTC Contract Administration Staff. Value added procedures should focus attention on ensuring: the adequacy of Contract Administration review procedures and level of compliance by all Contract Administrators to these procedures; and overall adherence of contractors and consultants to stated contract terms and conditions. Sampling techniques that focus on high-risk transactions, such as foreign exchange adjustments and hold-back calculations should be adopted rather than the current 100% review approach. Results of procedures performed should be documented and summarized.

Supporting documentation detailing errors and corrective actions taken needs to be maintained, as well as, analyses of the nature and number of errors identified. Derived information should then be used to recommend control improvements relating to certificate preparation and approval processes.

We would like to thank the Capital Accounting Staff and Management for all the assistance and cooperation provided to us during our audit.

Audit Manager
CGM's Office - Internal Audit
File No.: 10-50011

TORONTO TRANSIT COMMISSION

TO Dick Beecroft
FROM Michael Roche
DATE December 14, 2011
SUBJECT Management Response to Internal Audit re: Finance – Capital Accounting Section

Thank you for the opportunity to discuss the Internal Audit Survey Report of the Capital Accounting section on November 8th, 2011. It was encouraging to receive the confirmation that the section is well-managed and that internal controls are functioning satisfactorily. This memo responds to two issues that were raised for Management to review with respect to the Field Audit function.

Site Visits

We agree that the process and procedures followed by the Field Auditor for identifying, prioritizing and scheduling potential site visits should be formally documented as part of a standard operating procedure (SOP) - this will be completed by February 29th, 2012. As an initial step, staff has prepared a standard template for site visit documentation which will be utilized to organize information in preparation for the site visit, to document the findings and results of the site visit as conducted and to identify any concerns and follow up action required.

Certificates of Payment (COP)

We agree that our audit procedures should ensure contract adherence and consistency and accuracy of payment handling by contract administrators and that results of procedures performed should be documented and summarized. Field Audit staff maintain records of the types of errors that have been identified and raised in the course of their review. The noted problems are referred back to appropriate staff to ensure that they are aware, educated and advised of the appropriate handling for future payments. As appropriate, additional standard handling procedures for elements of the Field Audit Review role involving error findings will be documented in SOPs which will be completed by February 29th, 2012.

Thank you for your assistance.



Chief Financial Officer
42-21

Copy: Vincent Rodo
Dave Presley