

# TTC AUDIT COMMITTEE REPORT NO.

**MEETING DATE:** February 11, 2014

**SUBJECT:** TTC AUDIT DEPARTMENT – 2014 AUDIT WORK PLAN

**ACTION ITEM**

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## RECOMMENDATION

It is recommended that the TTC Audit Committee approve the attached TTC Audit Department's 2014 audit work plan.

## FUNDING

The recommendation in this report has no additional funding implications beyond the amount which has already been provided for in the 2014 budget request.

## BACKGROUND

To effectively fulfil the audit function and provide the TTC with the required audit services, an audit work plan is submitted annually to the TTC Audit Committee for approval based upon the areas with the greatest risk ranking priority. The audit work plan also provides the TTC Audit Committee with an accountability of how TTC audit staff resources are utilized throughout the year.

On a semi-annual basis the audit work plan is reviewed to determine whether there are any significant changes to the risk assessment of auditable projects. If required, an updated audit work plan is submitted to the TTC Audit Committee for approval, outlining the changes made and justification or reasons for those changes.

## DISCUSSION

In accordance with the TTC Audit Department's risk-based approach to prioritizing audit projects, a 2014 audit work plan has been developed for presentation to the TTC Audit Committee meeting for approval. The audit work plan takes into consideration the strategic objectives contained in the TTC's five-year corporate plan, available audit resources, annual available budget audit hours, and input from TTC management outlining significant risk exposure areas and emerging risks facing the TTC.

As a result of the review of audit risk exposure, audit projects may be deferred as risks are determined to be less significant when compared to new or emerging risk exposures. Audit entities indicating a potential greater risk exposure will be prioritized and audit resources allocated according to the risk-ranking.

The attached "TTC Audit Department – 2014 Audit Work Plan" identifies the audit projects planned for 2014.

**JUSTIFICATION**

This report is provided for approval of the TTC Audit Department's 2014 audit work plan.

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Attachment: TTC Audit Department – 2014 Audit Work Plan

## TTC AUDIT DEPARTMENT – 2014 AUDIT WORK

The following audit projects are in progress and scheduled for completion in 2014:

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
<p>Attendance Management</p> <p><i>[In Progress]</i></p>	<p>The audit will assess the attendance management program for efficiency, effectiveness of processes, and achievement of “value-for-money.”</p>	<p><b>PEOPLE</b></p>
<p>Payroll – Exception Reporting:</p> <p>1) Divisional Operator/Clerical overtime reporting processes and controls</p> <p><i>[In Progress]</i></p>	<p>The audit will assess controls and effectiveness of information reports over the monitoring and processing of payroll exceptions, i.e., overtime. The audit scope will be focused on the Union employees’ payroll processing function.</p>	<p><b>FINANCIAL SUSTAINABILITY</b></p>
<p>Inventory Control Processes:</p> <p>1) Receiving processes and quality assurance function, and 2) Cycle count procedures and distributed stores controls</p> <p><i>[Completed]</i></p>	<p>Both physical and information record-keeping controls will be reviewed to determine that controls are operating as expected, and information maintained is accurate, complete and available when needed.</p> <p>The scope of the audit will include the receiving/shipping, quality assurance, cycle counts, and distributed stores activities.</p>	<p><b>FINANCIAL SUSTAINABILITY</b></p>
<p>Fare Media Sales</p>	<p>This audit involves reviewing the debit/credit processing controls and reconciliations performed over the “point of sale” units at the Collectors’ stations.</p>	<p><b>CUSTOMER</b></p>
<p>Contract Management Review</p> <p><i>[Completed]</i></p>	<p>Review of contract management controls, i.e., financial, segregation of duties, over large dollar and/or potentially high-risk contracts.</p>	<p><b>FINANCIAL SUSTAINABILITY</b></p>

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
PRESTO System – Review of TTC Controls  <i>[In Progress]</i>	A follow-up review of TTC PRESTO controls as identified in the PricewaterhouseCoopers (PwC) CSAE 3416 Type 2 Report for the year ended December 31, 2012. The PwC report identified controls that should be in operation at the TTC, where applicable. This review will assess the existence and effectiveness of the controls for TTC PRESTO operations.	<b>CUSTOMER</b>
Dufferin Subway Station – Station Modernization Program	Construction expenses are incurred for Dufferin Subway Station to upgrade station finishes, lighting, signage, and public accessibility by the addition of elevators and a second exit. The audit scope will include an examination of expenses incurred, and compliance with contract terms and project management controls.	<b>GROWTH</b>
Capital Project – Purchase of Subway Cars  <i>[In Progress]</i>	A review of the compliance with contractual terms will be conducted.	<b>FINANCIAL SUSTAINABILITY</b>
Toronto-York Spadina Subway Extension (TYSSE) – Contract Change Processes  <i>[In progress]</i>	This audit will assess the appropriateness and effectiveness of the current contract change process in place for the construction contracts for the YYSSE project.	<b>GROWTH</b>
Follow-up Audits and Monitoring of Recommendation Implementation (for reporting in "TTC Audit Recommendation Performance Scorecard Report")  <i>[On-going]</i>	Follow-up audits will be performed on the status of recommendation implementation. Ensuring that recommendations are implemented enhances the reputation of the TTC through continuous improvement of its business processes.	<b>REPUTATION</b>

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
<p>Continuous Controls Monitoring of TTC Overtime and Related Employee Expenses – Auditor General's Report</p> <p><i>[On-going]</i></p>	<p>The Auditor General has initiated monitoring of TTC overtime, mileage, standby pay and meal allowance expenses. Reviews are done on a quarterly basis, and the TTC Audit Department coordinates management's responses that explain the reasons and need for the expenses.</p>	<p><b>FINANCIAL SUSTAINABILITY</b></p>

**2014 Audit Projects to be scheduled**

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
<p>Toronto-York Spadina Subway Extension (TYSSE)</p>	<p>The TTC Audit Department provides independent audit services for the YYSSE project and reports directly to the Executive Task Force (ETF). Audit reports are submitted to the ETF, along with YYSSE project management responses.</p> <p>In 2014 the audit services to YYSSE will, similar to previous years, focus on:</p> <ul style="list-style-type: none"> <li>a) Review of the YYSSE project management process and related controls;</li> <li>b) Verification of compliance to the terms and conditions for the construction contracts awarded for the building of the six underground stations.</li> </ul>	<p><b>GROWTH</b></p>
<p>Waterfront Initiative – Union Station New Platform Project:            1) Quality assurance process            2) Financial and contractual compliance</p>	<p>The Union Revitalization Project is funded by Waterfront Toronto and governed by a formal Contribution Agreement.</p> <p>The audit will continue the review of costs incurred and assess the adequacy of financial and project management controls.</p>	<p><b>GROWTH</b></p>
<p>Capital Project – Leslie Barns</p>	<p>A review of construction costs along with project management controls of the Leslie Barns facility will be performed.</p> <p>This is a continuation of the initial review of expenditures incurred, and further audits will be performed as the project continues.</p>	<p><b>GROWTH</b></p>

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
Pape Subway Station – Station Modernization Program	Construction expenses are incurred for Pape Subway Station to upgrade station finishes, lighting, signage, and public accessibility. The audit scope will include an examination of expenses incurred, and compliance with contract terms and project management controls.	<b>GROWTH</b>
Wilson Yard Expansion Project	Modification and expansion to the Wilson Yard facilities are required to ensure proper storage and maintenance of the Toronto Rocket (TR) subway trains which are a fixed six car train configuration. The audit scope will cover a review of the compliance with the construction contracts and adequacy of the project management controls.	<b>GROWTH</b>
Accessibility Program – Easier Access	<p>The Easier Access Program will make all subway and SRT stations accessible to everyone regarding of their level of mobility.</p> <p>Approximately half of the TTC's 69 stations are accessible to people with disabilities, and the TTC is working towards making all stations accessible by 2025. Audit's review will assess the program management control processes, in addition to reviewing contractual compliance with terms and conditions.</p>	<b>GROWTH</b>
Automatic Train Control (ATC) – Contractual Compliance	A follow-up of previous audits for the ATC contract will be performed, and examination of the administration controls will be conducted to ensure that the contract is effectively administered.	<b>FINANCIAL SUSTAINABILITY</b>

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
Purchase of Light Rail Vehicles (LRVs)	The LRV contract will be reviewed for compliance with contractual terms and "value-for-money."	<b>FINANCIAL SUSTAINABILITY</b>
Contract Management Review of Information Technology Services – External Consulting Contracts	This audit is a continuation of the special review of contract management controls. The audit scope will focus on the recruitment of external contracted labour for information technology services.	<b>FINANCIAL SUSTAINABILITY</b>
Fare Change Process	Audit observation and testing will be conducted for the 2014 fare change. This involves observation of procedures for Collectors' exchange of funds, and testing of accuracy for a sample of counts.	<b>CUSTOMER</b>
Operator Recruitment Process	The processes and controls in place for the selection, hiring and training of Operators will be assessed for effectiveness in meeting optimum recruitment targets.	<b>PEOPLE</b>
Sick Benefit Association	This audit will cover Sick Benefit Association reporting processes and controls, and including the Transitional Work Program (TWP). The effectiveness of controls for monitoring, processing and reporting sick time will be assessed. Other absences that will be examined include time-off and vacation payroll reporting processes.	<b>PEOPLE</b>
Enterprise Risk Management (ERM) – Evaluation and Review of ERM Processes	Audit support will be provided to the ERM program in evaluating the risk processes, and giving assurance that risks are correctly evaluated, as well as assurance on the risk management processes.	<b>SAFETY</b>



<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
Internal Control Governance Processes	Selected governance control principles will be assessed, for example, Board and Audit Committee governance processes, risk management philosophy, integrity and ethical standards and corporate values. Other principles may be selected depending of the outcome of Audit's review.	<b>REPUTATION</b>
Fare Evasion Study	The Audit Department in previous years up to 2011 conducted annual reviews of the fare evasion rate for the transit system. Due to budget resource limitations, this activity was discontinued. However, limited reviews of fare evasion for selected modes of transit, such as streetcars, may be undertaken in 2014. The feasibility and resource requirements to conduct a limited review of fare evasion will be assessed in 2014.	<b>CUSTOMER</b>
PRESTO System – Follow-up Review of TTC Controls	Control weaknesses relevant to TTC PRESTO controls, as identified by Ernst Young in their 2013 year-end Type 2 report, will be followed up to verify that corrective action has been implemented, where applicable.	<b>CUSTOMER</b>
Follow-up review of Video Surveillance – Privacy Practices	Previous audits completed will be followed up to determine that recommendations have been implemented and improved efficiencies have been achieved in complying with the recommendations made by the Privacy Commissioner of Ontario.	<b>CUSTOMER / PEOPLE</b>

## Other Potential Audits

Audit Project	Project Scope Description	Strategic Objectives*
Vehicle Maintenance Safety Critical Processes: 1) Subway/SRT 2) Streetcar	The audit scope will include a review of significant safety maintenance processes for compliance with TTC policies and departmental guidelines.	<b>SAFETY / ASSETS</b>
Fire Ventilation Program	The audit scope will be determined in the audit planning and risk assessment phase.	<b>GROWTH</b>
Disposal of Computers and other Digital Equipment – Security and Environmental Risks	Security over the disposal of computers, photocopies/scanners, etc. will be assessed ensuring that controls are in place to prevent loss and misuse of confidential corporate information, employee personal information and/or identity theft.	<b>FINANCIAL SUSTAINABILITY</b>
Strategy and Service Planning	The audit scope will be determined in the audit planning and risk assessment phase.	<b>CUSTOMER</b>
Tool Inventory Controls and Usage	The audit scope will be determined in the audit planning and risk assessment phase.	<b>ASSETS</b>
Business Intelligence – Key Performance Indicators (KPIs)	The audit scope will focus on reviewing selected KPIs covering the following three factors: 1) accuracy and reliability of information reported 2) timeliness of the information 3) value and usefulness of the information in key decision-making processes	<b>FINANCIAL SUSTAINABILITY</b>

<b>Audit Project</b>	<b>Project Scope Description</b>	<b>Strategic Objectives*</b>
Transit Enforcement – Review of Operational Procedures	The review the operational procedures of the Transit Enforcement Unit to provide assurance that customer security is enhanced and compliance with fare enforcement policies are maintained.	<b>CUSTOMER</b>
Rail Infrastructure – Review of Departmental and Management Control Processes	<p>The audit scope tentatively includes a review of departmental policies and control procedures. A review of previous audit recommendations will also be undertaken to assess the timeliness of implementation and adherence to due diligence “best practices.”</p> <p>Further refinement of the audit scope will be completed in the audit planning phase.</p>	<b>ASSETS</b>

**\*Strategic Objectives**

<b>SAFETY</b>	A transit system that manages its risks, that protects its customers, contractors and employees, and that minimizes its impact on the environment.
<b>CUSTOMER</b>	A transit system that values customers and provides services that meet or exceed customer expectations.
<b>PEOPLE</b>	An empowered, customer-focused workforce that values teamwork, pride in a job well done, and an organization that actively develops its employees.
<b>ASSETS</b>	Effective, efficient management of assets that delivers reliable services in a state of good repair.
<b>GROWTH</b>	An affordable expansion program that matches capacity to demand.
<b>FINANCIAL SUSTAINABILITY</b>	A well-run, transparent business that delivers value for money in a financially viable way.
<b>REPUTATION</b>	An organization is transparent and accountable, well-regarded by stakeholders and peers, in which employees are proud to play a part.