TTC AUDIT COMMITTEE
REPORT NO.

MEETING DATE: July 29, 2014

SUBJECT: TTC AUDIT DEPARTMENT REPORT – QUARTERLY UPDATE
FOR THE PERIOD APRIL - JUNE 2014

INFORMATION ITEM

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the attached TTC Audit Department report covering the period from April – June 2014.

FUNDING

This report has no effect on the TTC's operating or capital budgets.

BACKGROUND

The TTC Audit Department provides independent evaluations of the efficiency and effectiveness of control systems and operations, and recommendations for improvement.

DISCUSSION

The report discusses recent audit activities. The actual reports for completed audits, including management responses, are presented as individual agenda items.

JUSTIFICATION

This report is provided for information.

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TORONTO TRANSIT COMMISSION

TTC AUDIT DEPARTMENT REPORT

QUARTERLY UPDATE

FOR THE PERIOD APRIL - JUNE 2014

TTC AUDIT DEPARTMENT
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JULY 2014

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OPENING COMMENTARY FROM THE HEAD OF AUDIT

For today's TTC Audit Committee, we are presenting two audit reports. The first report is our audit of payroll exception reporting of TTC operators' overtime. The TTC manages overtime hours to ensure that only required overtime is approved and paid. The audit objective was to assess the adequacy of controls and integrity of information for monitoring and processing the TTC operators' payroll overtime. The second audit report addresses the PRESTO card controls that are expected to be in place at the transit service provider level.

For both of these audits, management agrees with the audit findings and responses indicate that management is taking action to strengthen controls where needed, and develop timelier and useful information for improved management decision-making.

I also wish to comment on the fact that today's meeting is the last TTC Audit Committee meeting for 2014. For the remainder of the year, we will continue to follow our 2014 audit work plan. Every six months we review the work plan and revise depending on changed or emerging risks. No adjustment to our work plan is considered necessary at this time. The 2015 work plan will be developed and presented to the TTC Audit Committee at next year's first meeting.

A major activity that the TTC Audit Department has underway is the implementation of a new audit management system. We anticipate that the system will be available for introduction by September. The audit management system will improve the monitoring of audit project budgets and standardization of audit work flows for documentation of audit working papers, audit scope planning and audit program approval.

A comment on the motion by Commissioner Heisey at the February 11, 2014 TTC Audit Committee is also required at this time. The motion put forth by Commissioner Heisey asks that we reflect on the resource needs of the TTC Audit Department, our priority settings and skills requirements. The audit strategic plan and the new audit management software will start to address some of the resourcing and skills issues. The 2015 operating and capital budget requests will also include provision for additional internal audit staff resources, along with external contracted services to be dedicated to audits of major capital projects. These are the goals that I will be working towards over the next six months to take the TTC Audit Department forward over the next several years.

Finally, I wish to thank the TTC Audit Committee members for their support to the TTC Audit Department during this past year.

Joseph L. Kennelly
Head of Audit

AUDIT PERFORMANCE – STATUS OF CURRENT AUDITS

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
OPERATIONS GROUP							
Communications Bus and Rail, and Communications Engineering	Presented to Audit Committee July 26, 2012				● ● ● (green bottom)	50%	

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
<u>**SERVICE DELIVERY GROUP**</u>							
Fare Change Process	Presented to Audit Committee on May 12, 2014	🟢	🟢	🟢	🟢		
<u>**STRATEGY AND CUSTOMER EXPERIENCE GROUP**</u>							
PRESTO – Review of TTC Controls	To be presented to Audit Committee on July 29, 2014	🟢	🟢	🟢			

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
ENGINEERING, CONSTRUCTION AND EXPANSION GROUP							
TYSSE – Construction Contracts (2014 Audit Work Plan)	Continuing audit – To be scheduled	🟢					
TYSSE – Contract Change Process	Presented to TYSSE on May 26, 2014	🟢	🟢	N/A	🟢		
TYSSE – Special Request Audits and Reviews: Project Management and Controls Process	Audit is in progress	🟢					
Union Station New Platform Project (2014 Follow-up)	Continuing audit – To be scheduled						
Leslie Barns – LRT Program, and Maintenance and Storage Facility (2014 Follow-up)	Continuing audit – To be scheduled						
Dufferin/Pape Station Modernization	Audit is in progress	🟢					

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
CORPORATE SERVICES GROUP							
Inventory Control Processes:							
1) Receiving processes/quality assurance function							
2) Central Inventory Control	Presented to Audit Committee on May 12, 2014	Green	Green	Green	Green	Completed	
3) Cycle count procedures and distributed stores controls							
Capital Project – Purchase of Subway Cars	Draft report to be issued to Management	Yellow					

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
INVESTIGATIONS, ANALYSES AND SPECIAL REVIEWS							
Contract Management (Part 1)	Presented to Audit Committee on October 25, 2013	green	N/A	green	green		
Contract Management – Review of ITS – External Consulting Contracts	Review is in progress	yellow					
Timekeeping/Payroll – Exception Reporting	To be presented to Audit Committee on July 29, 2014	green	green	green			
Attendance Management	Final report to be issued for Management response	yellow					
Follow-up Audits/ Monitoring of Recommendation Implementation	On-going	green					
Fare Evasion Study	Audit is in progress	green					

Key to Symbols

On target	Positive up from last
Target at risk at current trend	Positive down from last
Off target	Negative up from last
	Negative down from last
	No change from last
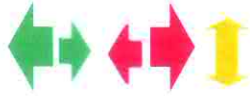
INTRODUCTION

Internal Auditing as defined by the Institute of Internal Auditors (IIA) *"is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes."* The TTC's Audit Department provides the TTC with independent evaluations of risk, and assessments on the effectiveness of control systems, quality of performance, and efficiency of operations.

In order to meet professional audit standards, audits are planned using a risk-based evaluation to determine where audit resources should be allocated. The risk factors used to calculate the priority level include: (1) impact on safety and security, (2) impact on customer service and accessibility, (3) potential liability or reputational publicity, (4) assets at risk, including liquidity of assets and informational assets, (5) organizational stability and maturity level of operating procedures, (6) legislation and regulation requirements, (7) dollar value of transactions, (8) complexity of operations and technology, (9) Management's assessment of corporate risk, and (10) a "Wildcard risk" to reflect new and emerging risks. The results of the risk assessment are documented by means of the Audit Work Plan which is approved by the TTC Audit Committee.

The TTC Audit Department performs the following types of assignments:

- Operational Audits – to assess control systems and the achievement of "value-for-money" in operational areas following a risk-based evaluation to establish audit priorities

- Capital Audits – to review major construction project expenditures to verify the accuracy of amounts claimed for work completed

- Financial – to assess whether internal control processes over financial reporting and safeguarding of assets are suitably designed and implemented to achieve control objectives

- Investigations, Analyses and Special Reviews – to address areas of immediate concern or exposure as identified by management's request

- System Development Reviews – to provide audit support to major computer system development and other technology projects

- Follow-up Audits – to determine the progress that management has made to comply with audit report recommendations and to assess the effectiveness of the action taken to minimize risks

CURRENT AUDIT ACTIVITIES

This report covers the main audit activities from April - June 2014. In this period, the following audits were completed and are included as TTC Audit Committee agenda items:

Operational Audits

- PRESTO Card User Entity Controls, Strategy and Customer Experience Group Farecard Team

Investigations, Analyses and Special Reviews

- Payroll Exception Reporting – Operator Overtime

AUDIT RESOURCES

The provision of professional audit services requires an audit team with a diverse range of skills, experience and the ability to apply those skills throughout the audit process. By the application of these skills and compliance with professional auditing standards, the TTC Audit Department provides Management with meaningful audit reports containing practical recommendations to reduce control risks, and/or identify areas for improvement in the effectiveness and efficiency of the controls in place.

The current approved staffing level of ten positions includes the Head of Audit, two Audit Managers, six Auditors, and one Administrative Assistant. The distribution of audit resources for the current reporting period (April – June 2014) is portrayed in the chart below:

Follow-up Audits 2%
Capital 30%
Investigations, Analyses and Special Reviews 43%
Operational 25%