STAFF REPORT
INFORMATION ONLY

Internal Audit Activities – Quarterly Update: A New Approach

Date:	May 25, 2016
To:	TTC Audit and Risk Management Committee
From:	(Acting) Head of Audit

Summary

The TTC Audit Department (TTC Audit) is adopting a new approach and format for the reporting of its key audit observations, audit activities and resource allocation to the TTC Audit and Risk Management Committee (ARMC), effective the First Quarterly Update of 2016.

This new approach ensures the timely communication of significant risks, audit concerns and other relevant information to the ARMC, while allowing Management sufficient time to develop a practical and achievable Management Action Plan. TTC Audit will track the status of each required Management Action Plan until its submission to the ARMC by Management and ensure finalized action items are incorporated into TTC's Enterprise Risk Management (ERM) database for tracking and completion by responsible parties.

The objective of adopting this change is to eliminate the shortcomings of the traditional audit report format while still meeting professional internal audit standards, as well as to shift the ARMC's focus and attention to those accountable for addressing the underlying risks and concerns articulated by TTC Audit.

Financial Summary

This report has no financial impact as the purpose is to explain changes made by TTC Audit in the reporting of its internal audit activities and results of assignments completed.

Background

As specified in the TTC Audit Charter, TTC Audit is to remain free from interference by any element of the TTC in matters of audit scope, procedures, timing or report content to permit maintenance of the necessary independent and objective mental attitude. TTC Audit must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; and make a balanced assessment of the relevant circumstances and presentation of significant risk exposures and controls issues, including fraud risks, governance issues, and other matters needed or requested by the ARMC. The scope of TTC internal audits encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the TTC's governance, risk management and internal control processes, as well as the quality of performance in carrying out assigned responsibilities to achieve the TTC's stated strategic goals and objectives.

Since the inception of TTC Audit, periodic reporting to the ARMC has taken the form of a traditional "Audit Report" which states each audit's Objective, Analysis and Recommendations, to which Management Responses are attached. Under this format, emphasis has been unduly placed on each audit "finding" rather than on the corrective actions proposed by Management to mitigate the underlying risks and root causes that could adversely affect the TTC's ability to achieve its strategic objectives.

The timing of Audit's communication to the ARMC has also historically depended upon Management's preparation of its responses. This often resulted in significant periods of time lapsing between the initial identification of audit concerns by TTC Audit and the presentation of the final Audit Report with attached Management Responses to the ARMC.

Comments

To eliminate the shortcomings of the traditional audit report while still meeting professional internal audit standards, TTC Audit is adopting a new approach and format for reporting key audit observations and comments to the ARMC.

This new approach allows the results of work completed by Audit during the reported quarter to be presented to the ARMC prior to the availability of formal management responses. This ensures communication of significant risks and relevant information to the ARMC is timely while allowing Management sufficient time to develop a practical and achievable Management Action Plan (MAP). The status of each required MAP is noted and tracked by TTC Audit until its submission by Management to the ARMC. Subsequently, TTC Audit will ensure finalized action items are incorporated into TTC's Enterprise Risk Management (ERM) database for tracking and completion by responsible parties.

To facilitate a more rigorous approach to the development of MAPs and to prompt the ARMC members to challenge the proposed risk mitigation strategies and/or the acceptance of residual risks, Management will submit its MAP to the ARMC as a stand-alone document which responds to noted audit concerns and identifies expected outcomes. This will effectively shift the ARMC's focus and attention to those accountable for addressing the underlying risks and concerns articulated by TTC Audit.

In this quarterly update package, the allocation of audit resources by type of work and by strategic objective is graphically depicted (**Tab A**). The nature of all completed and in-progress assurance and advisory activities has been listed and summarized, with additional levels of detail presented for completed items. This package is comprised of the following:

Assurance: Audit Projects & Special Requests

TTC Audit provides assurance services through the completion of audit projects identified in the annual Audit Work Plan and special requests from Management. While completing each project/request listed in this table (**Tab B**), TTC Audit performed an objective assessment of evidence to provide an independent opinion or conclusions regarding a department, operation, function, process, system or other subject matter.

All projects/requests in this table are further divided into 2 sections:

- Management Action Plan Required – to address audit outcomes and areas highlighted for action or improvement;

- No Management Action Plan Required – given the nature of the work completed and/or results.

The information presented for each project/request in this table includes:

- the **TTC Corporate Strategic Objective** to which this project/request is linked;

- the **status** of the project/request denoted as either "Completed" (all audit work completed) or "In-Progress" (audit work remains to be completed);

- the **date of presentation by Audit** to the ARMC of the **results** of the project/request;

- the **date of presentation by Management** to the ARMC of the final **MAP** developed and committed to by accountable parties;

- the **primary accountability group(s)** responsible for developing and implementing the **MAP**;

- the classification of the item as an **Audit Project or Special Request** and whether it was part of the current year's Audit Work Plan approved by the ARMC.

Assurance: Audit Projects & Special Requests by Strategic Objective

Each table includes **only** completed projects/requests from *Assurance: Audit Projects & Special Requests* with the **same Strategic Objective**. The classification of the project/request as "MAP Required" or "No MAP Required" is consistent with its classification in the *Assurance: Audit Projects & Special Requests* table.

The purpose of this section is to provide expanded commentary on each completed project/request as identified in the *Assurance: Audit Projects & Special Requests* table by summarizing TTC Audit's key observations and comments based on the results of work performed.

Each table also indicates the status of the development of a MAP by the Primary Accountability Group(s).

Management Action Plan

This document (**Tab C**) is to be **completed by Management for each completed audit project or special request where a MAP is required** in order to: acknowledge noted audit concerns and risks which warrant mitigation; provide **details** of the planned mitigating actions or acceptance of residual risks; articulate **expected outcomes**; and nominate **individuals responsible and accountable** for implementing the MAP by a **target date.**

Advisory: Support Services

TTC Audit supports Management by participating in various TTC initiatives in an advisory role where comments and suggestions are provided, but detailed audit work is not necessarily required or the development of a MAP by Management. Comments summarizing our participation in current initiatives are summarized under **(Tab D)**.

Contact

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Attachment
TTC Audit Department – Quarterly Update Package – Q1 2016

Internal Audit Activities
# Quarterly Update

INTERNAL AUDIT ACTIVITY: Allocation Charts   A

ASSURANCE: Audit Projects & Special Requests   B

Internal Audit Activities
Quarterly Update

Internal Audit Activity Allocation

By Nature of Service

- Assurance
- Advisory

Advisory
22%

Assurance
78%

By Strategic Objective

Reputation
15%

Customer
7%

People
7%

Financial
Sustainability
33%

Growth
38%
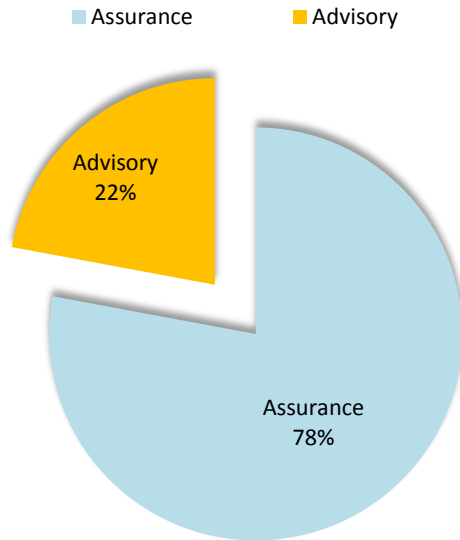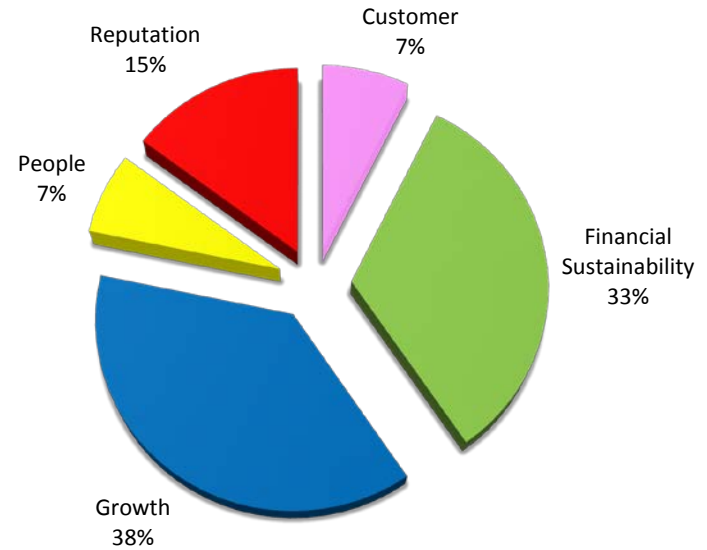
Definition of Strategic Objectives

Safety
A transit system that manages its risks, that protects its customers, contractors and employees, and that minimizes its impact on the environment.

Customer
A transit system that values customers and provides services that meet or exceed customer expectations.

People
An empowered, customer-focused workforce that values teamwork, pride in a job well done, and an organization that actively develops its employees.

Assets
Effective, efficient management of assets that delivers reliable services in a state of good repair.

Growth
An affordable expansion program that matches capacity to demand.

Financial Sustainability
A well-run, transparent business that delivers value for money in a financially viable way.

Reputation
An organization that is transparent and accountable, well-regarded by stakeholders and peers, in which employees are proud to play a part.

Internal Audit Activities - Quarterly Update

ASSURANCE: Audit Projects & Special Requests
(Summary) Q1 2016

Strategic Objective	Audit Title	Status	Audit ARMC Date	MAP ARMC Date	Primary Accountability Group(s)	2016 Audit Plan Y/N Audit Project (P) Special Request (R)
Management Action Plan* (MAP) Required						
Financial Sustainability	Payment Controls Review	Completed	May 25, 2016	TBD	Corporate Services	Y - P
Financial Sustainability	Tools Usage	Completed	May 25, 2016	TBD	Operations Group / Corporate Services	Y - P
Financial Sustainability	Fuel Card Management	Completed	May 25, 2016	TBD	Operations Group / Corporate Services	Y - R
Financial Sustainability	IPAC Paving	Completed	May 25, 2016	TBD	Operations Group / Corporate Services/ Human Resources	Y - R
Financial Sustainability	IT Disaster Recovery	Completed	May 25, 2016	TBD	Corporate Services	Y - P
Financial Sustainability	Contract Management	In-Progress	TBD	TBD	Corporate Services	Y - P
Growth	Union Station Second Subway Platform and Concourse Improvement Project	Completed	May 25, 2016	TBD	Engineering, Construction & Expansion Group	Y - P

Internal Audit Activities - Quarterly Update

ASSURANCE: Audit Projects & Special Requests
(Summary) Q1 2016

Strategic Objective	Audit Title	Status	Audit ARMC Date	MAP ARMC Date	Primary Accountability Group(s)	2016 Audit Plan Y/N Audit Project (P) Special Request (R)
Growth	Leslie Barns Project: • Maintenance Facility • Connection Tracks	Completed	May 25, 2016	TBD	Engineering, Construction & Expansion Group	Y - P
Safety	Transit Enforcement Unit (TEU)	Completed	Feb. 11, 2016	Feb. 11, 2016	Service Delivery Group	Y - P
Customer	Fare Media Sales	Completed	Feb. 11, 2016	Feb. 11, 2016	Corporate Services	Y - P
No Management Action Plan* (MAP) Required						
Customer	Business Intelligence: Key Performance Indicators (KPI's) Preliminary Review	Completed	May 25, 2016	N/A	N/A	Y - R
People	MTO - Driver Certification (Regulatory)	In-Progress	TBD	N/A	N/A	N - P (Deferred)
Financial Sustainability	Intria Site Visit	Completed	May 25, 2016	N/A	N/A	N - R
Growth	Leslie Barns Project: Pomerleau Per Diem Rate	Completed	May 25, 2016	N/A	N/A	Y - R

Internal Audit Activities - Quarterly Update

ASSURANCE: Audit Projects & Special Requests
(Summary) Q1 2016

Strategic Objective	Audit Title	Status	Audit ARMC Date	MAP ARMC Date	Primary Accountability Group(s)	2016 Audit Plan Y/N Audit Project (P) Special Request (R)
Growth	TYSSE: Move Ontario Trust (MOT) Funds Review	Completed	May 25, 2016 TYSSE Binder	N/A	N/A	Y - R
Growth	TYSSE: Audit Summary Update – 2008 to 2015	Completed	May 25, 2016 TYSSE Binder	N/A	N/A	N - R
Growth	TYSSE: Future Audit Considerations	Completed	May 25, 2016 TYSSE Binder	N/A	N/A	Y - P
Growth	TYSSE: Carillion Canada Inc. – Staff & Labour Rates	Completed	May 25, 2016 TYSSE	N/A	N/A	Y - R

<u>*Management Action Plan (MAP) Required</u>

YES   A formal Management Action Plan is required to address audit outcomes and areas highlighted for action and/or improvement; it is Management's responsibility to prepare a MAP to the satisfaction of the ARMC; TTC Audit will track the development of the MAP until submission to the ARMC.

NO   No formal Management Action Plan (MAP) is required given the nature of audit work completed and/or results.

Internal Audit Activities – Quarterly Update

Q1 2016

ASSURANCE: FINANCIAL SUSTAINABILITY (Completed)			
AUDIT TITLE	**Management Action Plan* (MAP)**	**Primary Accountability Group(s)**	**Page No.**
Payment Controls Review	In-Progress	Corporate Services	1
Tools Usage	In-Progress	Operations Group/ Corporate Services	2
Fuel Card Management	In-Progress	Operations Group/ Corporate Services	3
IPAC Paving	In-Progress	Operations Group/ Corporate Services/ Human Resources	4
IT Disaster Recovery	In-Progress	Corporate Services	6
Intria Site Visit	N/A	N/A	8

*Management Action Plan (MAP) Required

YES   **A formal Management Action Plan is required to address audit outcomes and areas highlighted for action and/or improvement; it is Management's responsibility to prepare a MAP to the satisfaction of the ARMC; TTC Audit will track the development of the MAP until submission to the ARMC.**

NO   **No formal Management Action Plan (MAP) is required given the nature of audit work completed and/or results.**

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
			Management Action Plan* (MAP) Required	
1	Payment Controls Review	A/P: Vendor Master Set-Up & Invoice Processing Out of Scope: • Payroll • Purchasing Card • Project Procurement (other than payment approvals)	Some Actions Required	**Payment Controls:** Controls evaluated provide reasonable assurance that access to payment processing is appropriately segregated and restricted, and that payments are valid, processed in accordance with applicable policies and procedures, appropriately classified, and recorded accurately and completely. **Master Vendor Files:** Improvements to vendor master set-up processes and file clean-up will enhance controls to prevent payment errors and deter fraud. **Invoice Processing:** Large volumes of invoices processed for payment rely on user groups and Procurement staff to manually verify prices and match details to supporting documentation to ensure adherence to contract terms. Upset limit contracts managed by user groups independent of any M&P staff pose the greatest risk for payment error and/or fraud schemes as segregation of duties and critical assessment skills are inherently weak at cost centre level. This represents approximately 30K or 42% of 2015 CDN invoices processed, valued at approximately $257 million. **Process Efficiency:** Management's efforts to redesign processes and improve efficiencies, including actively moving vendors to e-payment options and working with Materials & Procurement Receiving to secure cash discounts for early payments, should continue.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
2	Tools Usage	Analysis of Hansler Smith Ltd. Contract Purchases & Operational Tool Management (3) year contract, original upset limit - $4.3 M; increased by $1.4 M (Nov/14); ended July/15.	Significant Actions Required	**Tools Inventory:** Rigorous inventory management practices that safeguard and restrict access to consumable tools (e.g. drill bits) and small hand tools (e.g. screwdrivers), and track actual usage must be established and enforced consistently. Conducting regularly scheduled physical counts of tools maintained in distributed stores and maintenance areas, engraved with unique identifiers where feasible, assists in accounting for the existence and location of these attractive items and deterring theft. Broken tools need to be exchanged for replacements. **Data Analytics:** The proactive use of vendor and/or internally developed data analytic reports designed to detect purchasing irregularities and evaluate actual usage of items needs to be mandated as standard practice by operational management. Areas of focus include reviewing excessive repetitive purchases, price variances, and purchases of "off-basket" items and items expected to be covered by employee tool allowance provisions. **Policies and Procedures:** Enforcement of policies and procedures governing the purchasing of tools must be consistent for all cost centres and monitored accordingly. Guidelines for reporting questionable purchases and escalating matters for explanation, or investigation if required, need to be established and followed.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
3	Fuel Card Management	Use of Fuel Cards (3) year fuel contract; upset limit - $6.8 M; expires Nov. 30, 2016.	Actions Required	**Fundamental Card Control:** User groups must enforce the requirement that a fuel card is only to be used for the vehicle or equipment to which it is assigned, with no exceptions. **City Fuel Stations:** The use of City Fuel Stations with radio frequency identification technology will significantly reduce the use of TTC fuel cards, prevent inappropriate fuel card usage and reduce transaction errors and administrative inefficiencies. Target roll-out remains Q4 2016. **Service Level Agreement (SLA):** A SLA between the TTC and the City must establish applicable roles and responsibilities, expected levels of service and processes to be followed by both parties. **Exceptions:** Fuel cards will still be required for car washes and emergency purchases at retail locations. Proactive use of available data analytics will assist user groups in monitoring adherence to exception based criteria and identifying questionable transactions and fuel usage trends.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
4	IPAC Paving	Implementation of PwC Internal Control Recommendations	Plant Maintenance: Substantially Implemented Corporate Actions Required	**Price Waterhouse Coopers (PwC) Recommendations:** PwC was retained following the IPAC Paving investigation to conduct a gap analysis of internal controls over TTC's administration of the IPAC Paving contract. The review concluded with a memo issued in April 2012 outlining observations and twenty-eight (28) recommendations to improve TTC's contract administration with respect to paving contracts. **Plant Maintenance Department (PM):** PM Management adopted a comprehensive approach in addressing PwC's recommendations by extending and strengthening internal controls across all Plant Maintenance contracts. The current three year upset limit paving contract valued at $1.15 million is administered in conjunction with Materials & Procurement staff. Contract administration pre-award and post-award processes designed to address internal control deficiencies identified by PwC within the PM Department took effect July 2015. Requirements to segregate duties and rotate responsibilities still rely heavily on manual processes and available resources within the department. **Segregation of Duties & Automated Controls:** With proper segregation of duties, one individual is not able to independently requisition work, verify that work was done or goods were received, and approve the invoice for payment. Segregation of duties across departments is preferable. TTC's dependence on manual invoice authorization processes versus automated 2 way or 3 way matching systems with electronic signature controls, as recommended by PwC, increases the risk of processing errors, false billing schemes and/or management control over-ride.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				Data Analytics: In the absence of automated documentation preparation, 2-way or 3-way matching controls and electronic invoice authorization processes, the proactive use of vendor and/or internally developed data analytic reports designed to detect errors, unusual transactions, spending patterns and questionable items needs to be mandated as standard practice of those with contract administration responsibilities. Areas of focus to review include the number of contract amendments and extensions, budget/scope deviations, price variances and incidents of contract non-compliance. **Fraud Awareness Training:** Providing supervisory staff with oversight and authorization responsibilities and employees in "gate-keeper" roles (eg. buyers, contract administrators, accounts payable supervisors/clerks, operational administrative assistants) with formal fraud awareness training would assist in their critical assessment of procurement documents and evaluation of supporting evidence for invoice approvals. Enforcement of policies and procedures governing contract administration within departments must be consistent and monitored accordingly. Guidelines for reporting questionable items and escalating matters for explanation, or investigation if required, need to be established and followed. Regular audits, active management oversight and holding violators accountable for conflict of interest incidents may also deter fraud.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
5	IT Disaster Recovery	Disruption of IT Services & DataLoss Out of Scope: • Business Continuity Planning	Actions Required	**Disaster Recovery (DR):** DR is an essential element and subset of an organization's comprehensive business continuity plan that addresses only the information technology aspects. DR focuses on recovery in the event of a true disaster scenario, and not specific or individual application, service or component level outage. Data and service are not accessible during a disaster; they must be recovered; and the speed at which they are recovered is solely dependent on the planning, infrastructure and processes that are set forth and tested. **Systems Resiliency & Service Continuity:** Except for the mainframe system, which may be recovered at an external vendor off-site location and is targeted to be de-commissioned in the future, ITS management has opted for a systems resiliency and service continuity approach in the event of a disaster as opposed to a recovery-based strategy where and when feasible. Resiliency relies on the redundancy of IT infrastructure, ie., a server, network, storage system, or an entire data centre, to automatically take over (ie., "fail over") when one system fails and continue operating even when there has been an equipment failure, power outage or other disruption. The data is captured and mirrored (replicated) in real time at two locations so that if one location goes down, the other location is up and running with no or minimal disruption. Residual risks associated with a complete and simultaneous disruption of service at both data centres triggered by a disaster have been accepted by ITS Management on the basis that the probability of such a catastrophic event is low. **Testing Plans:** ITS DR procedures have been prepared to recover three TTC mission critical systems: TTC's mainframe payroll and general ledger modules; Wheel-Trans and IFS applications. It is considered best practice to test, validate and refresh DR plans to ensure a state of readiness and protection from disruption of critical services or data loss in the case of a disaster. Tests can be

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				costly and difficult to perform but the rationale behind decisions to forego testing and deviate from testing targets must be evaluated against the risks associated with a lack of verified preparedness. **Enterprise Risk Management (ERM) Status:** DR is an essential capability for the TTC to deliver uninterrupted IT service. Failure to provide the benefits associated with DR could have broad sweeping negative impacts on TTC business operations and related activities. Management recognizes that past TTC efforts to implement and support DR capabilities via a series of unique projects have not been effective, or the benefits have not proven to be sustainable, and that continual oversight, governance and focus is required to improve this capability over time. The inability to recover from system loss has been recognized in the ERM database as a corporate risk, with unauthorized access to the TTC network and computing assets identified as a potential threat. The risk associated with the lack of a holistic, comprehensive DR plan has not yet been evaluated and included in the ERM framework. **DR Roadmap:** In 2014, a gap analysis was conducted to provide a granular comparison between the current state and future state of DR within TTC. A Roadmap document outlining actions required to achieve a sustainable DR strategy aligned with TTC business requirements and state of readiness for all DR elements necessary for service availability and recoverability was prepared. A position created and expected to be filled in 2016 will lead the project to achieve the vision as designed by ITS. Conducting comprehensive Business Impact Analyses to ensure TTC business needs and interdependencies are properly addressed is a critical first step of a holistic approach to DR planning, and the realization of incremental improvements throughout the entire lifecycle of the program will be critical to maintaining momentum for achieving the DR vision of a reliable, documented, approved and proven level of DR preparedness.

Internal Audit Activities - Quarterly Update

ASSURANCE: FINANCIAL SUSTAINABILITY
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				No Management Action Plan* (MAP) Required
6	Intria Site Visit	Collector Bank Deposits	N/A	**Memorandum of Settlement (MOS):** MOS with the Amalgamated Transit Union, Local 113 dated July 11, 2014 clarifies the MOS dated March 6, 2011, both of which pertain to bank adjustments. **Observation:** In accordance with the MOS, representatives from TTC's Treasury Services and Fare Media Funds Control, accompanied by Audit staff, attended the Intria's deposit processing facilities on March 2, 2016 to independently observe the process for handling and counting TTC Collector deposits and confirm that TTC deposits are handled on an individual basis.

Internal Audit Activities – Quarterly Update
Q1 2016

ASSURANCE: GROWTH (Completed)			
AUDIT TITLE	**Management Action Plan* (MAP)**	**Primary Accountability Group(s)**	**Page No.**
Union Station Second Subway Platform and Concourse Improvement Project	In-Progress	Engineering Construction & Expansion Group	1
Leslie Barns Project: • Facility • Connection Tracks	In-Progress	Engineering Construction & Expansion Group	3
Leslie Barns Project: Pomerleau Per Diem Rate	N/A	N/A	7
TYSSE: Move Ontario Trust (MOT) Funds Review	N/A	N/A	8
TYSSE: Audit Summary Update (2008 to 2015)	N/A	N/A	9
TYSSE: Future Audit Considerations	N/A	N/A	10

ASSURANCE: GROWTH (Completed)			
AUDIT TITLE	Management Action Plan* (MAP)	Primary Accountability Group(s)	Page No.
TYSSE: Carillion Canada Inc. – Staff & Labour Rates	N/A	N/A	11

*Management Action Plan (MAP) Required

YES   **A formal Management Action Plan is required to address audit outcomes and areas highlighted for action and/or improvement; it is Management's responsibility to prepare a MAP to the satisfaction of the ARMC; TTC Audit will track the development of the MAP until submission to the ARMC.**

NO   **No formal Management Action Plan (MAP) is required given the nature of audit work completed and/or results.**

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
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Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
			Management Action Plan* (MAP) Required	
1	Union Station Second Subway Platform and Concourse Improvement Project	Contract: U2-7 Award (Jan 17/11) - $161.55 M (est. completion May 16/14)	Some Actions Required	**Governance:** Attention and oversight was given by senior management to the Union project in conjunction with other City Pan Am/Parapan games preparations. Efforts to ensure the station was ready for use and presentable to the public during the games were emphasized. **Substantial Performance (SP):** The contract was deemed substantially performed on June 15, 2015 and the holdback of approximately $19.8 M was released, rendering the Union station platform and concourse improvement work essentially ready for use in advance of the Pan Am special event opening date. Elements of incomplete work contingent upon the closure of the games were not included in the SP calculation, with the expectation that this work and other noted deficiencies were to be finished expeditiously following the games. The expected total completion date is late 2016 including an estimated $4.0 M of contract change work. The project team continues to meet with the Contractor to monitor this remaining phase of work and progress.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				City of Toronto Work: The City of Toronto requested TTC to coordinate and complete five pieces of work associated with its Union Station Revitalization project. As at the end of April/16, TTC records indicate almost $28.1 million has been incurred for City scoped work for which approximately $13.2 million has been reimbursed. Contract finalization is complete for 300mm sewer, 600mm sewer, Front Street Improvements, and Minor improvements; and Union Station Revitalization Early Works package is nearing finalization. **Retender:** The project was initially issued as contract U2-1 to four pre-qualified bidders, of which two submitted bids. The lowest bid was deemed non-compliant due to a naming error and the other bid significantly exceeded the budget. Consequently, U2-1 was cancelled, repackaged and issued again to the same four pre-qualified bidders as U2-7. While the low bid contractor was now compliant, it was approximately $8.6 million more than their initial bid but still within estimated costs.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
2	Leslie Barns Project (prior: Ashbridges Bay Maintenance & Storage Facilities) Consists of 4 major contracts: *Soil Removal & Capping* Contract: WM60-1 (completed Jan/12) *Hydro One Cable Relocation* Contract: WM40-1 (completed July/13)	*Maintenance & Storage Facility* Contract: WM1-1 Award (Apr 12/12) - $237.4 M (est. completion – Nov 28/14) *Leslie Street Connection Tracks* Contract: ABYS1-1 Award (Apr 8/13) - $104.7 M (est. completion May 29/15 For ABYS1-1: Pomerleau deemed the only pre-qualified bidder; negotiated price based on estimates.	Some Actions Required	**Governance:** This project has been the focus of many stakeholders, including the City, local residents and TTC. In April 2012, the City issued an unprecedentedly long Notice of Approval Conditions (NOAC) identifying conditions that must be met to obtain site approval. Discussions with the City to address required items have been ongoing ever since. In addition to public information sessions and community events, evidence of progress meetings via Briefing Notes with TTC Board members and City staff to discuss cost, schedule, claims issues and other relevant matters was noted since May 2012. Beginning in early 2015, Project Overview and Update reports were presented to the TTC Board and/or the newly formed TTC Assets and Growth Executive Committee and the Project Review Board for discussion amongst senior management. Special awareness was given to any threat or risk to the completion of targets in the summer of 2015 because of the Pan Am games, and direct CEO involvement with contractor discussions beginning late March 2015 and legal support was noted. **City of Toronto Work:** The scope of the Leslie Street Connection Tracks contract was expanded beyond budget to include Toronto Water requirements for extensive underground utility infrastructure upgrades and/or replacement. The estimated value of the utility work in 2012 was approximately $55 M and was included with the understanding that there would be cost sharing between the City and

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				TTC. Other City scope changes have included enhanced streetscaping/landscaping on Leslie Street and at three other Queen Street intersections in the vicinity.
				In late 2012, the City advised that TTC would have to bear the cost for the entire project including the infrastructure work but a cost sharing agreement with the City was put in place in 2013, and approximately $37 K remains outstanding.
				Contractor Accommodations & Performance: During the life of this project, TTC has requested a series of recovery plans from the contractor to address delays and acceleration of work for both contracts. The contractor for WM1-1 failed an interim TTC performance review in July 2014 triggering a restriction from bidding on future TTC contracts. However, conditions were somewhat altered in October 2015.
				In December 2014, TTC Construction management conveyed the message to senior management that the Project contractor's lack of familiarity with TTC contract documents, processes and requirements was a contributing factor to its difficulties in meeting TTC requirements. In response, TTC adopted a strategy of providing assistance designed to facilitate work progress, including frequent technical meetings with design consultants to resolve issues in a timely manner and making reasonable concessions where possible, and to address issues and inadequacies due to lack of planning, poor quality and performance by the contractor. Costs associated with these and other accommodations are being tracked for consideration during claims negotiations.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				Other key performance issues include ABYS1-1 contractor work stoppage in May 2015, refusal to correct a major track foundation elevation error to TTC's satisfaction and continued threats to stop work as means of leveraging the schedule for their financial benefit and making negotiations difficult, to which TTC staff issued a Notice of Default on June 2/15, prompting work to continue. TTC also identified risk mitigation options to terminate or de-scope remaining work with related communication plans pending discussion with Legal and the CEO. Substantial performance of the connection tracks was achieved Jan 13/16; and for the facility and yard, partial handover was Nov 1/15, "into service" Nov 22/15, and substantial performance achieved Mar 11/16. **Sub-Contractors:** Per TTC contract general conditions, a contractor is responsible for the performance of all sub-contractors and ensuring they are fully qualified to perform assigned work; there is no TTC process to review profiles or restrict a contractor's selection of any sub-contractor for which criminal activity is known to ensure the integrity of the procurement process and/or protect the reputation of TTC. Following an investigation and criminal conviction of the owner of IPAC Paving, TTC permanently prohibited the awarding of any TTC contract to the said owner on Jan 31/12. In July 2014, the City alerted TTC management of the possibility that IPAC or an affiliate

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
				entity was a sub-contractor for the Leslie Connection Tracks project. TTC management confirmed this fact of which it was already aware, but since no performance issues had been noted, no other actions were taken. In contrast, the City publicly suspended the IPAC affiliate company as a contractor in August 2014. TTC notified the contractor in writing on April 13, 2015 that IPAC was restricted from any further work for the TTC. Evidence suggests IPAC workers were still working on site in late August/15. The performance of sub-contractors can also significantly impact the progress of a project. In March 2015, one major sub-contractor of the WM1-1 Contract walked off-site; in November 2015 refused to work under change directives; and overall, provided unreasonably high quotations and was unwilling to negotiate, negatively affecting the contractor's ability to achieve on-time occupancy/substantial performance.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
			No Management Action Plan* (MAP) Required	
3	Leslie Barns Project – Pomerleau Per Diem Rate	Documentation Review	N/A	**Per Diem Rate:** A review of the daily per diem rate proposed by Pomerleau to be used in the calculation of delay costs associated with its staff working on the Leslie Street Connection Tracks (ABYS1-1) was completed. Detailed observations of Pomerleau's methodology, assumptions, calculations and supporting documentation was completed and provided to Materials and Procurement (M&P) staff as requested.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
4	TYSSE: Move Ontario Trust (MOT) Funds Review	2013 & 2014 MOT Claims	N/A	**MOT Special Request:** As requested by the Project's provincial funding partner, a review of TYSSE internal control practices and procedures used when making funding requests to ensure 2013 and 2014 Project Claims funded by the Trust totalling $214.6 million were both accurate and met the eligibility requirements of the Trust was completed.

TYSSE Internal Controls: The scope of the review was limited to those TYSSE processes and controls in place during the stated period of October 2012 to September 2014, during which the Trust distributed $214.6 million to the Project. The control environment and processes in place governing the administration and maintenance of records that support funding claims and project expenditures as implemented by TYSSE Project Controls staff were suitably designed to ensure Project Costs were properly accounted for and reported during the review period.

Scope Limitations: A review and testing of internal controls and due diligence processes followed by parties seeking only reimbursement from the Project, eg., City of Toronto and York municipality, was not performed as the MOT's request required comments only on TYSSE controls. In these cases, the audit review relied on TYSSE budgetary controls and monitoring thereof, and on other entity staff performing the necessary due diligence and approvals prior to submitting the expenditures for reimbursement. |

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
5	TYSSE: Audit Summary Update (2008 to 2015)	Pre-Project Reset	N/A	**TTC ARMC Request:** A request was made on November 12/15 by the TTC Audit and Risk Management Committee (ARMC) to receive from the TYSSE Executive Task Force (ETF) copies of all TYSSE audit reports prepared by the TTC Audit Department (TTC Audit) acting in its role as the TYSSE Independent Auditor and presented to the ETF from 2008 to the current date. The ETF authorized TTC Audit to release the requested documents to the TTC ARMC by letter dated December 15, 2015. **Chronological Summary:** In response to the TTC ARMC request, TTC Audit organized all TYSSE audit reports, memos and work plans from 2008 to 2015 into a confidential package for review by the TTC ARMC. Compiled audit results, recommendations and management responses reflect the control environment and TTC processes in place prior to the arrival of the third party project management firm, Bechtel. The key document, Final Summary of Audit Recommendations – Pre-Project Reset, in the package provides a synopsis of TTC Audit's rationale, shift in focus, major findings and recommendations, and brings closure to all audit items issued in the pre-Project Resent environment.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
6	TYSSE: Future Audit Considerations	TTC Audit Plan vs Independent Auditor Plan (ETF)	N/A	**TYSSE Independent Auditor:** The role of the TYSSE Independent Auditor (IA) as outlined in the Executive Task Force (ETF) Terms of Reference (2007) is to support and directly report to the ETF. TTC Audit was appointed to fulfil this role in 2007 per an agreement amongst TTC Audit, York Region Audit Services and the City of Toronto Auditor General. **Post-Project Reset:** Effective March 26, 2015, TTC CEO functions as the Project Manager with the addition of Bechtel staff to the project team, while the ETF continues to provide project oversight, budget recommendations and progress reporting. The TTC Board provides overall governance for the Project under its policies and procedures. **Going Forward:** Given the redefined governance structure both over and within the Project as a result of Bechtel's integration into the Project, TTC Audit's focus in 2016 and available staff for the Project may not meet the ETF's full audit requirements. A Special Meeting was held by the ETF on February 29, 2016 to discuss the possibility of utilizing alternative audit resources to meet the ETF's full audit requirements, a reasonable option in TTC Audit's opinion. However, given the Project's significance to TTC management and the TTC Board, TTC Audit, acting in the capacity of TTC's internal audit function, will audit elements of the Project in accordance with its annual risk assessment and share the results with the ETF to its benefit.

Internal Audit Activities- Quarterly Update

ASSURANCE: GROWTH
Q1 2016

Ref #	Audit Title	Audit Focus	Overall Opinion	Key Audit Observations & Comments
7	TYSSE: Carillion Canada Inc. – Staff & Labour Rates	Documentation Review	N/A	**Staff & Labour Costs:** A review and comparison of Carillion Canada Inc.'s (Carillion) staff payroll costs and TTC approved trade labour rates for July, August and September of 2015 to submitted daily rates was completed. Carillion is the construction contractor for Vaughn Corporate Centre Station. Results were provided to TYSSE Procurement staff as requested.

Internal Audit Activities – Quarterly Update

Q1 2016

ASSURANCE: CUSTOMER (Completed)			
AUDIT TITLE	**Management Action Plan* (MAP)**	**Primary Accountability Group(s)**	**Page No.**
Business Intelligence: Key Performance Indicators (KPIs) – Preliminary Review	N/A	N/A	1

*Management Action Plan (MAP) Required

YES **A formal Management Action Plan is required to address audit outcomes and areas highlighted for action and/or improvement; it is Management's responsibility to prepare a MAP to the satisfaction of the ARMC; TTC Audit will track the development of the MAP until submission to the ARMC.**

NO **No formal Management Action Plan (MAP) is required given the nature of audit work completed and/or results.**

Internal Audit Activities - Quarterly Update

ASSURANCE: CUSTOMER
Q1 2016

Ref #	Audit Title	Audit	Overall	Key Audit Observations & Comments
				No Management Action Plan* (MAP) Required
1	Business Intelligence: Key Performance Indicators (KPIs) – Preliminary Review	Daily Customer Service Report KPIs	N/A	**Key Performance Indicators (KPIs):** A KPI is a measureable value that demonstrates how effectively an organization is achieving its business objectives. **Observation:** Beginning in 2012, TTC management began posting a number of KPIs relating to subway, bus and streetcar service targets daily to customers. The intent was to encourage a culture of accountability amongst management. Many of these initial KPIs focused on such things as headway and "snapshot" measures rather than real-time journey metrics. Efforts to improve and move towards a real-time based measurement process that captures real customer experience and reflects industry best practice continue. **Going Forward:** Review of select KPIs to ensure alignment with TTC strategic objectives and industry best practices continues to be an area of audit focus.

Title of Audit Project or Special Request   Appendix 1

Management Action Plan

Risk: Description of Risk Requiring Mitigation/Acceptance

Item #	Management Action Plan	Expected Outcome	Task Responsibility	Target Date
1	Actions items proposed by Management to address or accept the underlying risk identified by TTC Audit.	Description of the expected outcomes or benefits of implementing the stated action items.	**TTC Group Responsible** Name of person(s) responsible	

Parties Accountable*	Sign-Off
Title of Group Chief(s)	**Name of Group Chief** (and signature)

*Agreement amongst Parties accountable for elements of this Management Action Plan will be reached and approvals obtained, and evidence thereof will be documented. A signed copy of the MAP will be forwarded to TTC Audit for submission to the ARMC; and for purposes of populating the TTC ERM database as required.

Internal Audit Activities - Quarterly Update

ADVISORY: Support Services
(Summary) Q1 2016

Strategic Objective	Audit Title	Status Ongoing Complete In-Progress	Internal Audit Activities Description	2016 Audit Plan Y/N
Safety	Risk & Governance Committee (RGX)	Ongoing In-Progress	Standing member of the TTC RGX Committee; attending regularly scheduled RGX meetings. Management Committees: Self-Assessment – tabulating Survey Data Results.	Y
Safety	Enterprise Risk Management (ERM)	Ongoing In-Progress	Supporting TTC Management in its ongoing efforts to implement the ERM Program. Assisting TTC's Risk Management Group in the development of a streamlined approach to populate TTC's ERM database with Management Action Plans put forth in response to internal audits and audits completed by the City Auditor General (AG) to hold Business Process and Control owners accountable for managing risks and action items as required.	Y
Customer	Customer Fare Evasion	Ongoing	Supporting TTC's Customer Development Department with its third party conducted fare evasion study, being done to determine a system-wide baseline evasion rate. Audit has performed fare evasion studies of specific types of evasion in the past. Audit's support ensures knowledge transfer of past methodologies and/or issues to consider while conducting such studies.	N - NEW

Internal Audit Activities - Quarterly Update

ADVISORY: Support Services
(Summary) Q1 2016

Strategic Objective	Audit Title	Status Ongoing Complete In-Progress	Internal Audit Activities Description	2016 Audit Plan Y/N
Customer	**PRESTO System**	**Ongoing**	**Standing member, representing the TTC on the PRESTO Audit and Assurance Committee (PAAC) in accordance with the governance structure outlined in TTC's Master Agreement with PRESTO; attending regularly scheduled meetings.**	Y
		Ongoing	**Advising TTC's Finance Department on financial reporting risks and controls of the PRESTO system.**	
		Ongoing	**Reviewing PRESTO 3416 report (Service Auditors' Report) to assess and plan appropriate internal audit work, if required, around existence and effectiveness of TTC complementary controls.**	
Financial Sustainability	**Employee/Vendor Misconduct/Fraud**	**Ongoing**	**Supporting TTC Management in its efforts to deter fraud, strengthen fraud mitigation strategies and control frameworks, and develop/implement a systematic Fraud Prevention Program.**	N - NEW
		In-Progress	**Proactively partnering with TTC Management to follow a systematic, phased approach to building a comprehensive Fraud Prevention Program.**	
Reputation	**City Auditor General: TTC Audit Work**	**Ongoing**	**Attending City Audit Committee meetings.**	Y
		Ongoing	**Supporting TTC Management as required and deemed appropriate in response to planned audit work and ad hoc requests initiated by the City Auditor General. Activities include:**	

Internal Audit Activities - Quarterly Update

ADVISORY: Support Services
(Summary) Q1 2016

Strategic Objective	Audit Title	Status Ongoing Complete In-Progress	Internal Audit Activities Description	2016 Audit Plan Y/N

			Continuous Controls Monitoring (CCM)
			• **Overtime – 2015 vs 2014**
			• **Absenteeism – 2015 vs 2014**
			
			Follow-Up of Past Audit Management Responses
			• **Wheel Trans (2012?)**
			• **Bus Maintenance**
			  ○ **Phase 1**
			  ○ **Phase 2**
			• **NRV Fuel Card Management**
			
			Audits
			• **Inventory Controls (2015/16)**
			
			Other Matters
			• **City Fraud Investigation Template**	