

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: December 19, 2013

SUBJECT: PricewaterhouseCoopers LLP 2012 Management Letter Follow-Up Reports

ACTION ITEM

RECOMMENDATION

It is recommended that the Board:

- 1) Receive the attached follow-up report on the PricewaterhouseCoopers LLP (PWC) management letter to TTC, for information,
- 2) Receive the attached follow-up report on the PWC management letter to Toronto Coach Terminal Inc.(TCTI), for information, and
- 3) Approve the forwarding of the attached reports to the Audit Committee of the City of Toronto.

BACKGROUND

At its meeting of October 25, 2013, the TTC Audit Committee meeting received the follow-up report and approved forwarding the report to the TTC Board for information and then to the City Audit Committee. On December 19, 2013, both the TCTI Audit Committee and the TCTI Board received the follow-up report on the management letter to TCTI.

Each management letter includes PWC's internal control recommendations, management's initial response and a status update detailing the action taken to address the recommendations.

Based on the City of Toronto Audit Committee July 2004 report, the TTC and TCTI are required to provide an update of outstanding issues raised in the management letter within six months after the issuance of the management letter.

DISCUSSION

PWC provided five recommendations in the management letter presented at the April 25, 2013 TTC Audit Committee meeting. Of these five recommendations, four have been fully addressed. One of the five also applied to TCTI and it has been fully addressed. Action is underway to address the remaining one control recommendation. All action taken to date will be subject to review by PWC during the 2013 external financial statement audit.

Toronto Transit Commission (TTC)

1. Approval of processing manual journal entries

Observation

In our testing of manual journal entries in the current year two control observations were noted:

- i) We noted circumstances where journal entries were drafted and approved by the same individual, without a secondary review.
- ii) We noted circumstances where journal entries, drafted by managers and supervisors, were being reviewed by subordinates to those who drafted the entries.

Implications

A lack of effective segregation of duties in posting manual journal entries or inadequate review and approval of manual journal entries may lead to a risk that unauthorized journal entries are made without detection.

Recommendation

PwC recommends that all manual journal entries be independently reviewed in accordance with the TTC's approval matrix before being posted to the general ledger. Individuals who have the ability to draft manual journal entries should also not have the ability to approve the same entry.

Management Response

We agree. The current policy will be reviewed, updated and communicated as required, by mid-year.

October 2013 Update

The policy for the preparation and approval of manual journal entries was updated, reviewed and approved by PWC and communicated to staff in early July.

Status

Complete

Toronto Transit Commission (TTC)

2. Implement process controls to track inventory requests made outside of the IFS system

Observation

During our testing of the inventory cycle count process, it was noted that there were a number of book to physical adjustments due to inventory records within the IFS system often overstating the quantity of inventory items on-hand.

Upon further investigation we noted that the primary reason for the book to physical differences was due to inventory items being requested and removed from TTC warehouses outside of the IFS inventory management system.

Implications

Inventory usage may not be identified until the inventory items were counted resulting in inaccuracies in the accounting records. As well, inventory could be misappropriated without detection.

Recommendation

All inventory requests for materials or replacement parts should be made through the inventory management process and should be recorded within the IFS inventory management system.

Management Response

Agreed. M&P is in the process of working with IT to have a bar coding scanning system project approved for implementation to assist with the control of the inventory material in the various warehouses which will be scanned and the inventory system updated by a store person or a mechanic when the operations group needs a part for a vehicle or to perform their work.

The mechanic is responsible to record the stock code and quantity taken on a Material Requisition form posted in each stockroom. In Bus Operations locations the Work Order Stock Requisition (WOSR) process is followed to allow mechanics to take the part out of the stockroom and fix the vehicle and the mechanic will update their work order recording the parts taken against the WOSR for the work performed. The store person will process the WOSR and update the inventory system at the end of the shift. Management will remind and reinforce this process with their staff to ensure compliance.

October 2013 Update

As a result of further information, the bar coding system will not be rolled out to the Divisional Inventory Control stores locations at this time. The Bar Coding system will be implemented in the main warehouse (Greenwood and Duncan).

Toronto Transit Commission (TTC)

Implement process controls to track inventory requests made outside of the IFS system (cont'd)

However, at the Divisional Store locations, M&P and Bus Maintenance are working jointly on a process to improve the parts availability and inventory updating in real time for accuracy improvement.

A pilot is being developed for testing at the Malvern Garage and once it has been proven, a Business Case will need to be prepared and further consideration given to which locations would benefit from this process. The process is to have the mechanic identify the part and place an order with the M&P stockroom. The M&P Storeperson will pick, issue and advise the mechanic that the requested parts are ready for installation. The Storeperson will update the inventory system before the parts leave the stockroom. The pilot is expected to be in place by March 2014.

Status

In Progress

Toronto Transit Commission (TTC)

3. Automate the allocation of labour costs

Observation

Currently, the TTC uses multiple manual processes to allocate labour costs to various general ledger accounts.

Implications

The use of manual spreadsheets and estimates to determine the labour to be allocated to various general ledger accounts is more time intensive and increases the risk of error.

Recommendation

We understand that the payroll system (OARS) has the capability of allocating labour costs automatically to various GL accounts (operating or capital). We recommend that the capabilities within OARS be utilized to allocate labour costs automatically between the appropriate general ledger accounts.

Management Response

The OARS system does have the capability of processing labour costs directly to the general ledger accounts. However, many areas throughout the TTC have other systems that they use to allocate costs to the General Ledger. These systems provide the reporting tools they need to manage their business appropriately and they are reluctant to give up the tools they know so well. We will endeavour to educate areas about OARS and the options available to them to ensure that over time we use the system to its fullest potential.

October 2013 Update

We have endeavoured to educate areas about OARS and the options available to them through internal memos and various conversations with work locations. We will continue to remind work locations of the OARS features and help areas expand their use of the various systems when possible.

Status

Complete

Toronto Transit Commission (TTC)

4. IT Control Recommendations - User access considerations

Observation

During our audit procedures, we noted the following IT control recommendations related to user access:

- i) We noted that a number of user accounts for terminated employees were not disabled in a timely manner and found evidence that a number of those user accounts were used to access the TTC network after termination.
- ii) We noted a number of user accounts in IFS (purchase and payable application software) for employees who transferred to another department but retained access to process goods receipts and issue payments.
- iii) We noted that there is no process in place to periodically review user access rights within IFS.

Implications

Unauthorized transactions could be performed or unauthorized access obtained using the user accounts of terminated or transferred employees.

Inappropriate access rights may be assigned to users and this may lead to the risk that unauthorized transactions could be performed or unauthorized access could be obtained.

Recommendation

User access for terminated employees should be removed as soon as possible following employment termination. User access for transferred employees should be modified appropriately on a timely basis after an employee has changed jobs.

The TTC Information Security policy should require that staff terminations or transfers be communicated to the IT department in a timely manner to ensure that unauthorized employees no longer have access to the system.

A formalized process should be implemented to review the appropriateness of user access rights on IFS at least once annually.

Toronto Transit Commission (TTC)

IT Control Recommendations - User access considerations (cont'd)

Management Response

The "Disabling Process for Terminated Employees/Contractors" has undergone a review and update and was newly published as of April 4, 2013. Updates include streamlining the notification process for unplanned terminations as well as timelines to remove all access to applications of terminated users. This process was signed off by all affected Department Heads responsible for maintaining ID administration.

TTC Information Security Policy 7.2.2.6.5.3 currently advises all Staff that any changes to an employee's ID in their charge is to be communicated to the IT Services Department.

7.2.2.6.5.3

"It is the responsibility of the employee's immediate supervisor to follow the instructions in the Termination, Transfer, Disciplinary Checklist when an employee change occurs, e.g. contact ITS to arrange for a userid or password change.",

IT will remind the Management team that they should advise their staff that timely compliance with this policy is required.

As recommended, an Annual Audit of IFS user's access will be conducted by the Materials and Procurement, Materials Management System administrator. One of the focus points of the Audit will be validating users assigned IFS role(s) and employees current cost centre.

October 2013 Update

IT and HR delivered a joint communication in July 2013 reminding all staff to comply with policy 7.2.2.6.5.3 (outlined in initial management response) and inform IT/Access Control Administration of an employee termination or transfer in a timely manner to ensure unauthorized employees do not have system access.

As recommended, M&P is in the process of reviewing IFS user access and it is expected to be complete by the end of October 2013.

Status

Complete

Toronto Transit Commission (TTC)

5. IT Control Recommendations - Implementation of audit logs in application software

Observation

PwC noted the application software for Millennium (general ledger) and OARS (payroll system) do not have audit logs in place to track which users have accessed or made changes to the application data.

Implication

The lack of audit logs within these applications leads to the risk that these applications could be accessed or changes made to application data by unauthorized users may go undetected.

Recommendation

Understand that TTC management is in the process of assessing new ERP systems. As part of this assessment, management should ensure that audit logs exist over each of these processes. Once in place, a process should be implemented to review the audit logs on a periodic basis.

Management Response

As recommended, TTC management will ensure that new ERP systems include an audit trail logging module. Also, any new system will include audit trail logging module as part of the development requirements. Furthermore, TTC staff will examine what is possible with existing systems and make a decision by the end of the year.

October 2013 Update

Millennium

The audit log capabilities for Millennium have been investigated and evaluated. While limited tracking is available, the reporting interface is not user friendly and has the potential to negatively impact overall system response times. As it is proposed that this system be replaced with a new ERP system, no changes are scheduled at this time.

OARS (Payroll)

The existing system is an in-house developed online mainframe application that does not have audit log functions. Introducing an audit function would require a redesign and development effort. As it has been proposed that this system be replaced with a new ERP module, no changes are scheduled at this time.

Status

Complete

PricewaterhouseCoopers LLP 2012 Management Letter with December 2013 Update

Toronto Coach Terminal Inc. (TCTI)

1. Lack of segregation of duties and inappropriate approval in processing manual journal entries

Observation

In our testing manual journal entries in the current year we noted two circumstances where journal entries, drafted by managers and supervisors, were being reviewed by subordinates to those who drafted the entries.

Implications

Inadequate review and approval of manual journal entries may lead to a risk that unauthorized journal entries are made without detection

Recommendation

PwC recommends that all manual journal entries be independently reviewed in accordance with the TTC's approval matrix before being posted to the general ledger.

Management Response

We agree. The current policy will be reviewed, updated and communicated as required, by mid-year.

December 2013 Update

The policy for the preparation and approval of manual journal entries was updated, reviewed, and approved by PWC and communicated to staff in early July.

Status

Complete