



Update on Audit Recommendations from Internal Audit Reports

Item 9
March 6, 2014
**Corporate Affairs and Audit
Committee**

To: Corporate Affairs and Audit Committee **Report:** CAAC:2014-05
From: Chief Internal Auditor
Date: January 29, 2014 Page 1 of 3
Strategic Plan Priority: **Service Excellence:**
• Demonstrate Value for Money and Public Accountability

PURPOSE:

To provide the Corporate Affairs and Audit Committee (“the Committee”) with an update on Internal Audit’s follow-up on recommendations set out in the following two Internal Audit Reports:

- ‘*Fleet Management*’ (report dated May 31, 2011, reviewed at the November 24, 2011 Committee meeting; and
- ‘*2012 Mileage Compliance Audit*’ (report dated October 2, 2012, reviewed at the November 23, 2012 Committee meeting.

RECOMMENDATION:

It is recommended that the Committee receive this report for information.

REASONS FOR RECOMMENDATION:

Background

The Internal Audit Department conducts an annual follow-up process of all Internal Audit reports issued to ensure management has taken appropriate action to implement recommendations included in those reports.

Due to the fact that recommendations included in audit reports may take in excess of six months to implement, our annual follow-up is conducted only on reports that (i) contained recommendations and (ii) were addressed at a Committee meeting prior to July 1, 2013.

When conducting our follow-up procedures, we acquired information and documents and performed tests necessary to satisfy ourselves that the recommendation had been implemented.

Fleet Management

Fleet management made significant strides in developing a comprehensive Fleet Policy and procedures.

At the suggestion of the City's Auditor General, and through proper research, Toronto Community Housing Corporation's (TCHC) fleet operations were transferred to the City. As a result, the Auditor General and management estimates that TCHC will save an estimated \$2.6 million over a five year period, or \$520,000 annually, relative to what would have been spent to appropriately maintain the fleet.

Mileage Compliance

Though a few minor exceptions were noted in our follow-up testing, there has been a marked increase in compliance with the mileage reimbursement policy and procedures.

We did, however, note that Recommendation 5 of that report (which addressed segregation of duties for entering mileage claims in the payroll system and appropriate approval of same) was found NOT to have been implemented. There continued to be a number of instances where

- The mileage claims were entered and approved in the WTES payroll system by the same person; or
- The mileage claims were not approved within the WTES payroll system.

This finding is similar to a finding in the Payroll System Internal Audit report that will be considered at the Committee's March 6, 2014 meeting. To avoid duplication of recommendations, we will essentially 'transfer' this recommendation to the Payroll System Internal Audit report. This, therefore renders Recommendation #5 in the mileage report as being no longer applicable.

Summary of Findings

Management took extensive action with respect to the recommendations set out in the two reports.

Though the status of a recommendation is generally 'Implemented' or 'Not Implemented', there are occasions where a recommendation is no longer applicable due significant changes in process or structure subsequent to the issuance of the report.

As a result of our follow-up procedures, the current status of the recommendations set out in the two reports are summarised as follows:

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Report Title and Date	Total No. of Recs	Implemented	Not Implemented	Not Applicable
Fleet Management (May 31, 2011)	5	4	0	1
2012 Mileage Compliance Audit (October 2, 2012)	8	7	0	1
Total	13	11	0	2

The specific recommendations that have been implemented are set out in Attachment 1. The specific recommendations that are no longer considered to be applicable are set out in Attachment 2.

IMPLICATIONS AND RISKS:

Recommendations from Internal Audit reports are meant to improve the internal controls and processes of TCHC. Such recommendations hold little value if they are not fully and properly implemented by management. By conducting follow-up procedures, we are able to measure management's implementation of previous Internal Audit recommendations.

"Michael Vear"

Michael Vear, CPA, CA, CPA (Illinois)
Chief Internal Auditor

- Attachments:**
- 1: Toronto Community Housing Corporation Internal Audit Department, Internal Audit Recommendations – Fully Implemented as at December 31, 2013
 - 2: Toronto Community Housing Corporation Internal Audit Department, Internal Audit Recommendations – Not Applicable as at December 31, 2013

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Report: Fleet Management

Report Date: May 31, 2011

Recommendations:

- 1 Develop a TCH enterprise wide fleet management policy by Q411. As an interim measure it is recommended that the HSI Fleet Management Policy be adopted.
- 2 During the development of the Fleet Policy, Fleet guidelines should be developed to establish enterprise standards and procedures to be followed with respect to:

- Utilization of vehicles;
- Disposition of vehicles;
- Preventative maintenance;
- Odometer readings and log books;
- Monitoring maintenance requirements;
- Monitoring fuel consumption;
- ARI gas cards;
- Vehicle branding; and
- Taxable benefits and personal use of vehicles.

The guidelines should ensure that the practices and procedures developed comply with TCH policies with respect to procurement and internal control.

- 4 Conduct an inventory count of all fleet vehicles. The results of the inventory count should then be reconciled to TCH records. Inventory counts of fleet vehicles should then be conducted on an annual basis.
- 5 Reconcile the number of fleet vehicles per TCH records to that recorded by ARI. Subsequent to this exercise, investigate whether or not TCH has been correctly invoiced by ARI.

Attachment 1
Toronto Community Housing Corporation Internal Audit Department
Internal Audit Recommendations - Fully Implemented as at December 31, 2013

Report: 2012 Mileage Compliance Audit

Report Date: October 2, 2012

Recommendations:

- 1 TCHC Management:
 - a) Review the duplicate Mileage Claims made in 2010 and 2011 with a view to clarifying the legitimacy of the Mileage Claim. If adequate support for the Mileage Claim is provided, the documentation should be attached to the Mileage Claim. If insufficient explanations are received, management should consider recovering duplicate reimbursements that have been made to the employee; and
 - b) Reinforce to approvers of Mileage Claims the importance of ensuring duplicate Mileage Claims are not submitted by employees.

- 2 TCHC management:
 - a) Review those instances where a Mileage Claim was made on a day the employee's WTES System records indicated that the employee was not at work. If adequate support for the Mileage Claim is provided, the documentation should be attached to the Mileage Claim. If insufficient explanations are received, management should consider recovering the inappropriate reimbursements that have been made to the employee; and
 - b) Reinforce to approvers of Mileage Claims the importance of ensuring that Mileage Claims are not submitted by employees with respect to days they are not at work.

- 3 Managers and supervisors who approve Mileage Claims, when reviewing and approving Mileage Claims, develop a process that (i) is cost effective and (ii) reduces the risk of excessive Mileage Claims being made.

The approval process, which should be evidenced by the approver's signature on the Mileage Claim, should determine that employees have chosen the most cost effective route of travel (taking into consideration both the number of kilometres travelled and the time required to travel).

- 4 TCHC management consider issuing an enterprise wide memorandum to all staff reiterating the need to comply with the revised (June 2011) Mileage Reimbursement Policy vis-à-vis (i) deadlines for submitting Mileage Claims and (ii) managers and supervisors approval of Mileage Claims. The memorandum should highlight the penalties of non-compliance in order to ensure that employees understand their responsibilities and are reminded of its requirements.

- 6 TCHC management ensure that employee Mileage Claim forms are properly stored and retained in accordance with relevant record retention policies.

Attachment 1
Toronto Community Housing Corporation Internal Audit Department
Internal Audit Recommendations - Fully Implemented as at December 31, 2013

- 7 TCHC Management:
- a) Re-issue the employee T4 forms to reflect the unreported taxable benefit with respect to Mileage Claims paid in 2010 and 2011;
 - b) Ensure that any similar taxable benefits incurred in 2012 are accurately recorded on the affected employee's 2012 T4 form; and
 - c) Amend the June 2011 Policy to reflect the CRA's 'reasonable' rate per kilometre.
- 8 TCHC management incorporate in the Mileage Reimbursement Policy the need for employees to indicate on the Mileage Claim form (i) whether a trip is "one-way" or "return" and (ii) the individual legs of a multi-destination trip.

The Mileage Claim form be re-formatted so that additional rows in a cell will be printed.

Report: Fleet Management

Report Date: May 31, 2011

Recommendations:

- 3 Implement a new, open tender for fleet lease and fleet management, ensuring that the tender process adheres to TCH procurement policies. Ensure that practices with the successful bidder are sufficient to establish appropriate controls and information/data reporting.

Report: 2012 Mileage Compliance Audit

Report Date: October 2, 2012

Recommendations:

- 5 TCHC management ensure that (i) the employee who approves Mileage Claims in the WTES System is not the same person who has entered that information in the WTES System and (ii) all Mileage Claims entered in the WTES System are approved by the appropriate person.