



Status Update on Audit Recommendations from Internal Audit Reports

November 17, 2016

Building Investment, Finance and Audit Committee

Item 3B

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| Report: | BIFAC:2016-153 |
| To: | Building Investment, Finance and Audit Committee (BIFAC) |
| From: | Chief Internal Auditor |
| Date: | October 31, 2016 |
| Strategic Plan Priority: | Service Excellence: <ul style="list-style-type: none"> • Demonstrate Value for Money and Public Accountability |

PURPOSE:

To provide the Building Investment, Finance, and Audit Committee (the Committee) with a report on Internal Audit's follow-up on recommendations set out in Internal Audit reports submitted to the Committee prior to November 30, 2015.

RECOMMENDATIONS:

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

REASONS FOR RECOMMENDATIONS:

Background

The Internal Audit Department annually reports to the Committee on our follow-up of all Internal Audit reports issued to ensure management has taken appropriate action to implement recommendations included in those reports.

Since 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 outstanding recommendations and (ii) were addressed at a Committee meeting prior to November 30, 2015.

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

Reports Issued

This report reviews the recommendations made in the following Internal Audit reports:

| Report Name | Covering Report Date | Date of Committee Meeting |
|---|-----------------------------|----------------------------------|
| <i>Cell Phone Usage Compliance Audit</i> ¹ | February 27, 2014 | March 6, 2014 |
| <i>Review of TCHC Payroll Processing</i> ² | June 18, 2014 | June 27, 2014 |
| <i>Review of TCHC Public Sector Salary Disclosure</i> | September 11, 2014 | September 23, 2014 |
| <i>Petty Cash Compliance Audit</i> | January 27, 2015 | February 5, 2015 |
| <i>Tenant and Employee Cash Advances Compliance Audit</i> | January 27, 2015 | February 5, 2015 |
| <i>Procurement Compliance Review</i> | March 18, 2015 | April 27, 2015 |
| <i>Rent Geared to Income Calculation Review 2015</i> | November 10, 2015 | November 16, 2015 |

¹ The follow up on the *Cell Phone Usage Compliance Audit Report* was initially set out in our November 8, 2015 follow up report to the Committee. At that time, there were two Recommendations that remained in progress.

² The follow up on the *Review of TCHC Payroll Processing Report* was initially set out in our November 8, 2015 follow up report to the Committee. At that time, there were two parts of one Recommendation that remained in progress.

Summary of Findings

Overall, of the 21 recommendations that were made:

- 10/21 (48%) have been implemented;
- 10/21 (48%) are in progress; and
- 1/21 (4%) is no longer applicable

The detail of the implementation status of the reports being reviewed is summarized in the following table:

| Report Name | Total No. of Recs | Implemented | In Progress | No Longer Applicable |
|---|-------------------|-------------|-------------|----------------------|
| <i>Cell Phone Usage Compliance Audit</i> | 2 | 2 | | |
| <i>Review of TCHC Payroll Processing</i> | 1 | | | 1 |
| <i>Review of TCHC Public Sector Salary Disclosure</i> | 1 | 1 | | |
| <i>Petty Cash Compliance Audit</i> | 7 | | 7 | |
| <i>Tenant and Employee Cash Advances Compliance Audit</i> | 2 | 2 | | |
| <i>Procurement Compliance Review</i> | 4 | 1 | 3 | |
| <i>Rent Geared to Income Calculation Review 2015</i> | 4 | 4 | | |
| Total | 21 | 10 | 10 | 1 |

Attachment 1 to this report sets out the recommendations that have been implemented.

Attachment 2 to this report sets out the recommendations that are in progress.

Attachment 3 to this report sets out the recommendation that is no longer applicable.

General Overview of Improvements

Cell Phone Usage Compliance Audit

Management strengthened controls over employee's personal cell phone usage by implementing the remaining two Internal Audit recommendations. Management established both monitoring and reimbursement standards for the personal use of TCHC cell phones.

Review of TCHC Payroll Processing

In this report it was noted there were two terminated employees who received overpayments of vacation payout upon leaving TCHC's employment. As such, Recommendation 6(a) in the report stated:

The amounts outstanding with respect to the overpayment of vacation pay to terminated employees be recovered immediately by TCHC;

Management was unsuccessful in recouping the overpayments voluntarily from the individuals. Because the statute of limitations has passed, no further legal action can be taken.

Arising from the above noted finding, Recommendation 6(b) in the report stated:

Due to the fact that such a substantial amount of our sample selection determined that there were errors made in the calculation of vacation pay owing to terminated employees (both over and under payments), management should review all vacation payouts to all TCHC employees whose employment with TCHC terminated in 2013.

This action was not taken by management. Accordingly, any vacation over payments that may have arisen from such a review are now statute barred from being collected.

Recommendations 6(a) and 6(b) from this report are now no longer applicable.

However, as was noted in our November 8, 2015 report, *Status Update on Audit Recommendations from Internal Audit Reports*, all special payments made to employees that require payroll staff's manual calculation and processing (e.g. vacation payouts) are now reviewed and approved by an authorized approver prior to the payment being processed.

Review of TCHC Public Salary Disclosure

Management strengthened controls over the review and submission of the TCHC Public Salary Disclosure to the City of Toronto, by implementing the one recommendation in the September 11, 2014 Internal Audit Report.

Petty Cash Compliance Audit

Management is in the process of improving the governance, accountability and compliance over petty cash with seven audit recommendations in progress, including the review and update of the TCHC Petty Cash Policy and procedures.

Tenant and Employee Cash Advances Compliance Audit

Management has strengthened the controls around the processing, documentation and follow-up of tenant cash advances by implementing the two Internal Audit recommendations from the January 27, 2015 Internal Audit Report.

Procurement Compliance Review

Management is in the course of developing a protocol and processes relating to the change order process, including a change order analysis program as well as the use of electronic signatures in the procurement process.

Rent Geared to Income Calculation Audit

Management has strengthened controls around the monitoring and review of RGI calculations, by implementing all four recommendations in the November 10, 2015 Internal Audit Report.

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.

SIGNATURE:

"Michael Vear"

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

ATTACHMENT:

1. Toronto Community Housing Corporation Internal Audit Department, Internal Audit Recommendations – Fully Implemented as at October 31, 2016
2. Toronto Community Housing Corporation Internal Audit Department, Internal Audit Recommendations – In Progress as at October 31, 2016
3. Toronto Community Housing Corporation Internal Audit Department, Internal Audit Recommendations – No Longer Applicable as at October 31, 2016

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Attachment 1
Toronto Community Housing Corporation Internal Audit Department
Internal Audit Recommendations - Fully Implemented as at October 31, 2016

Report: Cell Phone Usage Compliance Audit

Report Date: February 27, 2014

Recommendations:

5. Management should consider revising the Cell Phone/Mobile Communications section of the TCHC Expense Reimbursement Policy Procedures, to include guidance on the course of action to be taken by employees in reimbursing TCHC for personal charges incurred on TCHC-issued Cell Phones.

6. The Cell Phone Policy be amended to reflect an employee's or the employee's manager's responsibility to review employee Cell Phone invoices for excessive personal use during business hours. This amendment should include guidance with respect to:
 - (a) what is considered to be "excessive"; and
 - (b) the development of a review process that (i) is cost effective and (ii) reduces the risk of excessive personal Cell Phone calls made during business hours.

Report: Review of TCHC Public Sector Salary Disclosure

Report Date: September 11, 2014

Recommendation:

1. In future years, prior to submitting the "Record of Employees' Salaries and Benefits Report" to the City of Toronto, the amounts included in that report be compared, and agreed, to the T4s that have been prepared for the employees included in that report.

Report: Tenant and Employee Cash Advances Compliance Audit

Report Date: January 27, 2015

Recommendation:

1. In processing tenant cash advance applications, TCHC staff should be reminded of the (i) proper completion of the requisite forms and (ii) need to evidence on the forms all of the necessary approvals.

2. TCHC staff ensure that TCHC Tenant Cash Advances are settled within the timeline set out in the Tenant Cash Advance Policy.



Report: Procurement Compliance Review
Report Date: March 18, 2015

Recommendation:

4. When a business case is required to commence a non-capital procurement project, a copy of the business case should be sent to the Procurement Department and retained in the particular project's procurement file, as supporting documentation for the procurement being made.

Report: Rent Geared to Income Calculation Review 2015
Report Date: November 10, 2015

Recommendations:

1. The Director, Program Services direct the Asset Management Operational Administrative Auditor to review, by October 30, 2015, the rent calculations of the current and two prior rent reviews of files having rent calculation errors and advise the appropriate Operating Unit manager of their resolution.
2. The Director, Program Services, direct staff to strengthen the RGI rent calculation monitoring and review function within the Program Services department as follows:
 - (a) The Administrative Audit Assistants increase RGI calculation monitoring by using automated tools such as the one designed by Internal Audit, by January 31, 2016;
 - (b) The Administrative Audit Assistants continue reviewing periodic reports for outstanding rent reviews; and
 - (c) The Administrative Audit Assistants check all RGI rent calculations by December 31, 2016 prior to the Notices of Decision being mailed to tenants.
3. The Director, Program Services:
 - (a) Discuss with the Service Provider, the City of Toronto, the need to have a formal position on whether accepting alternative documents (e.g. bank statements from pensioners) to perform their rent calculation is an accepted business practice;
 - (b) Communicate the outcome of the above decision to TSCs and Contract Management partners;
 - (c) Direct both groups to update their forms, procedures and training manual, as appropriate.
4. Asset Management Directors, before January 31, 2016:
 - (a) Explore the feasibility of an early transition towards electronic records retention system on a go forward basis (e.g. Using desk scanners and network access); and
 - (b) Should the resource constraints allow, start the implementation thereof by March 1, 2016.



Attachment 2

Toronto Community Housing Corporation Internal Audit Department Internal Audit Recommendations – In Progress as at October 31, 2016

Report: Petty Cash Compliance Audit

Report Date: January 27, 2015

Recommendations:

1. Management review and update, if required, the current TCHC Petty Cash Policy to ensure it is up to date with respect to current TCHC petty cash procedures and other TCHC policies
2. Petty Cash custodians and their managers should be reminded of the proper use, completion, and approval of Petty Cash Vouchers.
3. Petty Cash custodians and their managers should be reminded of the proper use and completion the Petty Cash Reconciliation and Reimbursement Form.
4. (a) Management review the Petty Cash Policy to determine an appropriate minimum frequency for petty cash reconciliations to be completed. This frequency should take into consideration the date of the most recent replenishment of a petty cash fund.
(b) Management develop a cost effective program to ensure that there is compliance with the frequency of petty cash reconciliations determined from 4(a) above.
5. Petty cash reconciliations should be completed and submitted for those petty cash accounts that have not submitted a Petty Cash Reconciliation subsequent to May 1, 2014.

In addition, management should review those specific petty cash funds and determine whether they are still required. If they are no longer required, they should be closed and the funds returned to the Finance Department.
6. The Resident and Community Services token log should be:
 - a) reconciled and submitted for review once a year; and
 - b) subject to an unannounced token count and reconciliation at least once per year.
7. A standard token usage log should be developed and used by all petty cash custodians to track token usage.

The petty cash reconciliation process should include the reconciliation of tokens on hand with the Petty Cash Custodian.



Report: Procurement Compliance Review
Report Date: March 18, 2015

Recommendation:

1. A TCHC protocol on change orders be developed. Such protocol should address, but not be limited to, such items as:
 - a) The change order process(s);
 - b) Roles and responsibilities in the change order process;
 - c) Relevant forms that should be used and how they should be used;
 - d) Lump-sum vs. per unit pricing;
 - e) Thresholds for what change order process/document should be used; and
 - f) Authorization requirements for change orders.

Subsequent to its development, appropriate training documents be developed and presented to the appropriate staff.

2. Consideration be given to developing a program of change order analysis, with a view to (i) decreasing the number of change orders in future and (ii) identifying unusual patterns of change orders.
3. A protocol and/or policy with respect to the use of electronic signatures in the procurement process be developed, approved, and distributed to TCHC staff.

Consideration be given to reviewing the applicability and usefulness of electronic signatures in other TCHC operations.



Attachment 3
Toronto Community Housing Corporation Internal Audit Department
Internal Audit Recommendation – No Longer Applicable as at October 31, 2016

Report: Review of TCHC Payroll Processing

Report Date: June 18, 2014

Recommendation:

- 6(a)** The amounts outstanding with respect to the overpayment of vacation pay to terminated employees be recovered immediately by TCHC;

- 6(b)** Due to the fact that such a substantial amount of our sample selection determined that there were errors made in the calculation of vacation pay owing to terminated employees (both over and under payments), management should review all vacation payouts to all TCHC employees whose employment with TCHC terminated in 2013.