

2011 Audit Workplan

For Information



2011 Audit Workplan

- This report is for information only, however some members of Council have asked whether the 6 year Audit Plan and the 2011 audit work plan need to be reapproved
 - I feel that the 6 year Audit Plan should not be changed until Council gets to see more audits
 - The 2011 audit work plan is flexible
 - Council may request emerging issue audits at any time with a 2/3rd majority



2011 Audit Workplan

6 year audit plan

- My direction is clear
- The Audit Plan was approved by the previous Council
- The proposed risk based sequencing of program audits was established



2011 Audit Workplan

- Cross-functional audit hours provided flexibility to address broader corporate issues:
 - Specific risks or opportunities relating to the quality of stewardship
 - Specific risks or opportunities impacting the achievement of value for money in operations



2011 Audit Workplan

- The 2011 audit work plan is following the previously approved audit plan
- Although audits are taking longer than I first anticipated, we are on track



2011 Audit Workplan

- **Two Things:**

1. We keep finding things we did not expect to find, and we cannot simply look the other way
2. We are only two people, and I am having to spend more time defending the AG's office/less time auditing than originally expected

2011 Audit Workplan

		Audit Type	Division / Program / Activity	Audit Name	Planned Audit Start	Planned Final Report
ISSUED	1	Program Audit	Infrastructure Services / Roads / Miscellaneous Winter Maintenance	Roads - Miscellaneous Winter Maintenance	Feb-10	May-10
	2	Cash Handling Audit	Transit Services / Cash Office Activities	Cash Handling – Transit & Parking Services	May-10	Aug-10
	3	Cross Functional Audit	Timesheet & Payroll	Shift Transfers – Controls Over Distribution and Compensation For Work	Aug-10	Jan-11
APRIL	4	Program Audit	Transit Services	Conventional Transit Operations Program Audit	Aug-10	Apr-11
	5	Program Audit	Transit Services	Handi Transit Operations Program Audit	Aug-10	Apr-11
	6	Cross Functional Audit	Contract Management	Transit Ticket Sales Contract	Aug-10	Apr-11
	7	Cross Functional Audit	Payables & Receivables	Accounts Payable Recoveries	Oct-10	Apr-11
MAY	8	Audit Followup	Roads / Finance	Misc. Roads Maintenance	Mar-11	May-11
	9	Audit Followup	Transit Services	Transit Cash Handling	Aug-11	May-11
	10	Cross Functional Audit	Safeguarding of Assets	Roads - Grindings	Jul-10	May-11
	11	Emerging Issues Audit	Roads Infrastructure	3 ISF Projects - Value For Money & Control	Feb-11	May-11
JUNE	12	Program Audit	Environmental Services	Environmental Services	Apr-11	Jun-11
JULY	13	Cross Functional Audit	Procurement	Disclosures of Selection Criteria, Budget and Contingency Funds Available	May-11	Jul-11
	14	Cross Functional Audit	Risk Management & Assurance Providers	Codes of Conduct, Complaints Protocol	Jun-11	Jul-11
AUG	15	Cross Functional Audit	Construction Management	Roads Warranty & Acceptance	Jun-11	Aug-11
SEPT	16	Program Audit	Fire Services	Fire Services	Jul-11	Sep-11
NOV	17	Cross Functional Audit	Revenues & Recoveries	User Fees & Recoveries	Aug-11	Nov-11
DEC	18	Cross Functional Audit	Grants & Funding Expenditures	Subsidies, Support, Donations, Dinners etc.	Oct-11	Dec-11
TBD	19	Cash Handling Audit	To Be Determined	To Be Determined	tbd	tbd
	20	Program Audit	Water & Wastewater Linear	Water & Wastewater Linear	Dec-11	Apr-12
	21	Emerging Issues Audit	Water & Wastewater Linear	Extending The Life Of Water & Wastewater Linear Assets		
	22	Emerging Issues Audit	Finance: Tangible Capital Assets	Upcoming Asset Replacement Funding Pressures		
	23	Emerging Issues Audit	Roads: Candidates For Regression	Roads That Are Good Candidates To Return To Gravel or Surface Treatments		
	24	Emerging Issues Audit	Equipment Fleet: Vehicle & Equipment Fleet Inventory - Condition, Suitability For Use, and Usage Analysis	Identifying Equipment That May Be Over Specified, Inefficient, or Underutilized.		



2011 Audit Workplan

- What has happened so far?
- Roads – Misc Winter Maintenance
 - Planned to look at efficiency and effectiveness and found issues with:
 - Delegation of Authority – Budgetary Control
 - Purchasing By Law – Procurement – Council Approval
 - Foreman's approval of contractor timecards – payment through break periods

Audits Issued To Date

Emerging Issues Audit – Roads: Miscellaneous Winter Maintenance

Achievement Of Value For Money
In Operations

Quality Of
Stewardship
Over Public
Assets

Collective
Bargaining
Agreement
Flexibility
(Shift work)

Contract
Management
Time Cards

Recording Of
Road Defects
Through 311

User Fee
Recovery Of
Costs For
Damage By
Others

Delegation
Of Authority
By Law
Authority To
Exceed
Budget

Adherence
To
Purchasing
By Law
Sole
Sourcing

Audits Issued To Date

Significant Criticism By Citizens And Media In March 2009

Budget Overspent By \$1.6 million

Just Do It!!
\$423,000
Sourced &
Spent With
No Contract

Increased Flexibility
Required To Enable
Use Of City Crews

Contractor Expense
2008-09 \$ 928,000
2009-10 \$ 198,000
2010-11 YTD\$ 24,000

Time Cards Showed
That Hired Equipment
Contractors Were
Being Paid Through
Lunch Breaks

Potential Savings Of
5.5% of Hired
Equipment Expenses

Procedure Used In
Recording Of Road
Defects Through 311
Required Tightening

This Information May
Become Legal
Evidence

No Bylaw or Fees
Existed To Recover
For Damage To Roads
By Utilities and
Contractors

Road Fouling (eg.
Road Cuts) Estimated
\$100,000/yr

MMMS System
For Ten Years. The
Work Plan \$\$ Did Not
Reflect Operating
Budget \$\$ Presented
To Council



2011 Audit Workplan

- What has happened so far?
- Cash Handling – Transit & Parking Services
 - Planned to look at cash handling policies & procedures and found:
 - No policies and procedures existed

Audit Reports Coming In April

Transit Services

Conventional Transit Program
Audit

Handi Transit
Program
Audit

Shift Trades

Contract
Management

Accessibility
Of Bus Stops



2011 Audit Workplan

- What has happened so far?
- Program Audit – Transit Services
 - Planned to look for program related opportunities and risks and found:

Management Resistance



2011 Audit Workplan

- What has happened so far?
- Program Audit – Transit Services
 - Planned to look for program related opportunities and risks and found:
 - Important performance data that had never been shared with the Transit Committee or Council
 - Evidence of selling shifts for cash
 - The failure to heed KPMG warnings and reign in Transit receivables, resulted in a loss of \$580,000

Audit Reports Coming In April

Significant Investments By Council Yet 2009 Ridership Was Below 2006 Levels

40,000 Ph. Calls /yr - Are Logs of Citizen Feedback Maintained?

\$80,000 Consultant Study In 2006 – Has Formal Analysis of Routes and Stops Been Completed By Management?

What percentage of Mechanics Paid Hours Are Explained By Time Recorded On Work Orders?

Is Growth In Demand For Handi Transit Sustainable?

How Quickly Are # Rides & Expenses Growing?

How Much Money Will Be Needed By 2015?

Management Was Assuming Unnecessary Risk Allowing Drivers To Sell Shifts For Cash

Did A Failure To Heed Warnings Of KPMG And Collect Receivables Resulted In a loss of \$580,000 Of Public Funds?

Is The Current Transit Fleet (with Replacement Value Over \$27 Million) At Risk With No Fire Suppression System?

Does 100% Accessible Buses Mean That The Conventional Transit System Is 100% Accessible? (Location & Condition Of Stops)

Audit Reports Coming In April

Cross Functional Audit - Payables & Receivables

Finance: Accounts Payable

Opportunity To Conduct An Analytical Review Of 100% of Vouchers Paid
between Jan 2008 and Sept 2010

Classification and,
Evaluation Of
Root Causes Of
Voided Payments

Evaluation Of The
Effectiveness Of
Controls To
Prevent or Detect
Duplicate
Payments To
Vendors

Evaluation Of The
Effectiveness Of
Controls To
Prevent or Detect
Payments To
Wrong Vendors

Evaluation Of The
Effectiveness Of
Controls To
Prevent Fraud
Eg. Segregation of
Duties

Evaluation Of The
Timeliness Of
Payments To
Vendors

Audit Reports Coming In April

Analytical Review Of 100% of Vouchers Paid between Jan 2008 and Sept 2010

\$1.2 Billion Of Payments Analyzed With Specialized Software

Looking For Opportunities To Prevent Payment Errors Before Cheques Are Issued

86,000 Vouchers Paid /Yr

26,000 Cheques Issued/Yr

Increased
Review Of Voids
Will Be
Recommended

Improved
Preventive and
Detective
Controls Will Be
Recommended

Improved Control
Procedures Over
Vendor Master
File Creation and
Maintenance Will
Be Recommended

Segregation of
Duties - With
Staff Able To Both
Create Vendors
and Pay Invoices,
recommendations
have been made.

What % Of
Vendors Were Set
Up to Issues
Cheques On A
Rush Basis?

Next On 2011 Audit Workplan

Cross Functional Audit – Safeguarding Of Assets

Roads : Highest And Best Use Of Asphalt Grindings
Identification of processes that produce these assets, and the subsequent control, valuation, and highest & best use of these assets.

What Is The
Value Of Asphalt
grindings?

What Are The
Highest And Best
Uses Of Asphalt
Grindings

Where Have All
The Grindings
Gone In The
Past?

What Impact Do
Our Unique
Specifications Of
3% Cross Fall
and 1% Grade
Impact Have?

Next On 2011 Audit Workplan

RAP (Recycled Asphalt Product)

Asphalt Grindings Are One Of The Most Highly Recycled Products On The Planet
In The Past, This Material Has been Considered An Environmental Liability
Has Been Left to The Contractors To Dispose Of

ISF Projects: Specified the top 90mm of asphalt on over 60
lane km of road surface to depth of 3 ½ “ to be “Virgin
Asphalt” with zero % recycled content

Approximately 88,000 tonnes or 4,400 tandem truckloads

Estimates range between
\$1 /mt (local contractor),
\$10/mt (GTA contractors),
\$40/mt (cost of components)

**Between
\$88,000 and
\$3.5 million**

Grindings may be added to
virgin materials to produce
asphalt at a lower cost

15% recycled content is not
uncommon in surface layers,
and

30% recycled content is not
uncommon in base layers

Grindings may be used
in place of aggregates in road
construction,

washout maintenance ,
as a base under chip-seal
surface treatments,

for bike trails and paths,
running Tracks, tennis courts
etc.?

Improved controls over these
assets and future possible
uses will be recommended

Next On 2011 Audit Workplan

Emerging Issues - The Three Roads ISF Projects

ISF (Infrastructure Stimulus Funded Projects)
Lasalle Blvd., Falconbridge Rd., Paris-Notre Dame

To provide assurance that the
taxpayers got what they paid
for.

To identify opportunities
for improvement in
management of future
roads projects.

Project
Plans and
Sequencing

Project
Estimates

Project
Inspection
Managemnt

Quality
Control,
Identifying
Deficiencies
and
Acceptance
of Work

Project
Status
Updates

Program
Change Order
Management

Project
Budget
Constraints
Project Time
Constraints
Project Scope
Constraints

Next On 2011 Audit Workplan

Due To Timelines And Staffing Constraints, This Was An Acid Test For Existing Construction Management Processes
Over \$38 million Of Construction Work Planned & Estimated Without Additional Staff Resources

Staff have been very proactive. Ensuring that taxpayers got what they paid for.

Staff have been very proactive. Identifying opportunities for improvement.

The Auditors Will Recommend Improvement To Project Plans and Sequencing

The Auditors Will Recommend Improvement To Project Estimating

The Auditors Will Recommend Improved Controls Over Project Inspection Contractors

The Auditors Have Concerns Re: The Quality Of Concrete Work Accepted

The Auditors Will Recommend Improvement To Project Status Updates

The Auditors Will Recommend Improvement To Program Change Order Management

Budget was the #1 constraint managed in these projects. Falconbridge ISF is between \$1.1 and \$1.4 million over budget.

On 2011 Audit Workplan

Cross Functional Audit – Revenues & Recoveries

User Fees

If User Fees are established, recommended and approved without a solid understanding of the “Fully Burdened” costs of delivering the service, how can value for money be evaluated?

What mechanisms are in place to understand the full cost of services?

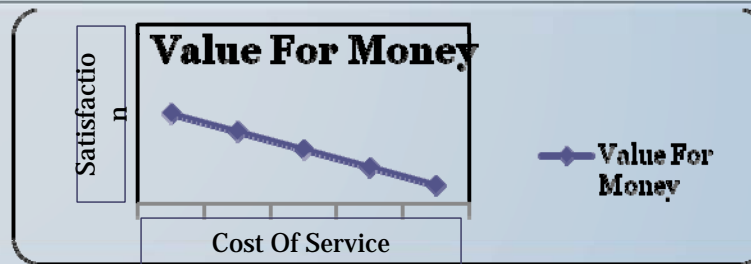
What mechanisms are in place to understand the discounts given (revenues lost) from these full costs?

Does an increase in user fees always have to directly translate into an increase for users? Why? Why Not?

Can demand for services be impacted by offering suitable, less expensive substitutes or alternatives and still achieve desired outcomes?

2011 Audit Workplan

If the City had maintained the same % of operating expenses recovered through User Fees as existed in 2001, how much would the City have collected from direct users



Internal charge backs have been recently introduced, and capital cost estimates will be update in the near future.

Understanding discounts given would improve our understanding of impacts to other revenue sources, and pricing equity issues?

Many organizations charge their own fees in addition to the City's User Fees.
There are still opportunities for more partnering and volunteer support.

Eg. Families only have a limited amount of time for leisure activities. If they choose less expensive substitutes, we all win.

Possible Emerging Issues

Emerging Issues? – Tangible Capital Assets

What simple things can we do to predict future capital requirements before the 2013 update to the 10 Year Capital Plan?

Capture the replacement cost, and useful life experience of assets replaced in the last 2 years?

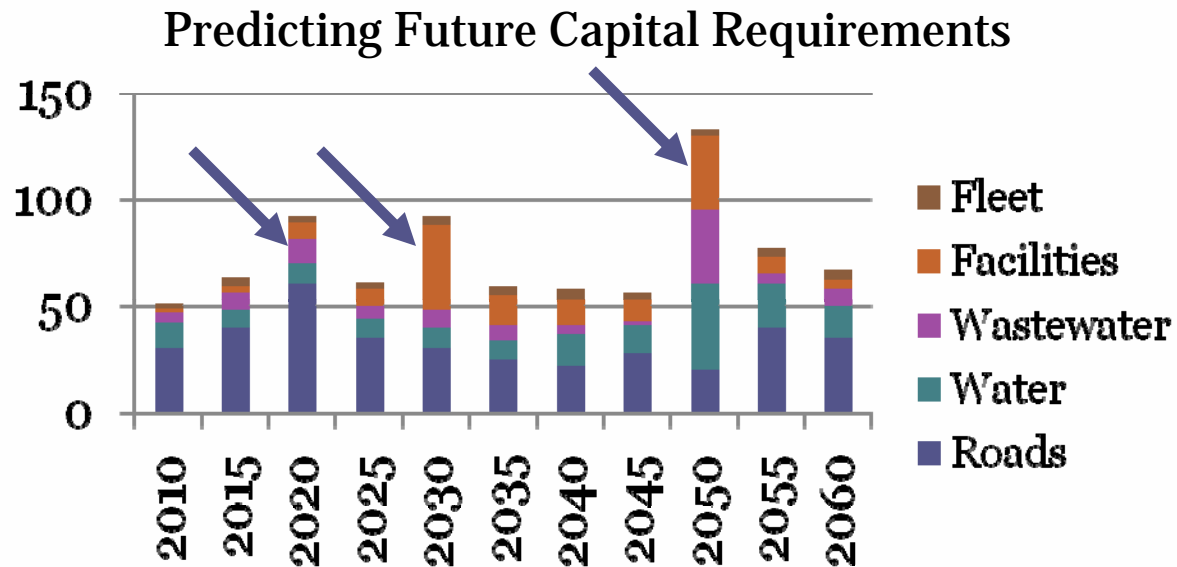
Compare the current experience to the Existing Tangible Capital Asset Inventory.

For each asset determine the planned year of replacement and the cost of replacement.

What can we do now to manage these future capital requirements?

Possible Emerging Issues

Every asset has a remaining useful life, and a replacement cost. The following graph is **NOT** based on actual numbers but does illustrate the opportunity to look into the future. Our greatest risk is that future funding pressures will be ignored.



What can we do now to manage future capital requirements once we become more aware of them?