1
AUDIT SERVICES BRANCH REPORT

The Audit Committee recommends the adoption of the recommendation contained in the following report dated September 5, 2012, from the Director of Audit Services.

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

This report provides an update on the activities of the Audit Services Branch since the last Audit Committee meeting.

Attachment 2, *Tables C and D*, follow up of outstanding audit points are private attachments as they address concerns regarding the security of the property of the Region.

Attachment 3, Corporate Services - *Human Resources – Exiting Employees Audit Report* is a private attachment as it addresses concerns regarding the security of the property of the Region.

3. BACKGROUND

On October 11, 2000, the Audit Committee approved the development of the Audit Services function through the report of the Chief Administrative Officer. The Audit Committee Charter indicates the Audit Committee is to meet at least twice a year. In practice, the Audit Committee usually meets three times a year to receive updates on the activities of the Audit Services Branch.

4. ANALYSIS AND OPTIONS
Audit Plan Execution

The Audit Services Branch has been actively executing the approved 2012 – 2014 Three Year Audit Plan and other consulting engagements. A summary of the activities since the previous Audit Committee meeting is outlined in *Attachment 1*.

Audit Reports Issued

The audit reports issued since the last Audit Committee meeting are:

- Outstanding Audit Recommendations Follow Up Audit Report (*Attachment 2*)
- Corporate Services – Human Resources – Exited Employees Audit Report (*Attachment 3*)
- Finance – ITS – Converged Network Audit Report (*Attachment 4*)

5. FINANCIAL IMPLICATIONS

None.

6. LOCAL MUNICIPAL IMPACT

None.

7. CONCLUSION

A follow up of outstanding audit recommendations for audit reports issued prior to August 31, 2012 indicates that management remains cognisant and active in implementing Audit Services recommendations.

Audit Services continues to work with Region management at all levels to provide them with an independent, objective assurance and consulting activity designed to add value and improve the Region's operations. Audit Services does this by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through guidance provided by the *International Standards for the Professional Practise of Internal Auditing*

(The four attachments referred to in this clause were included in the agenda for the October 4, 2012 Committee meeting.)

ATTACHMENT 1

YORK REGION
AUDIT SERVICES BRANCH ACTIVITIES

Project Name		Status
1.	Outstanding Audit Recommendations Follow Up	➢ Completed
2.	Human Resources – Exited Employees – Corporate Services – Audit Report	➢ Completed
3.	Oversight and Audits performed at York Region Rapid Transit Corporation	➢ Completed
4.	Compliance with Institute of Internal Auditors	➢ Completed
5.	Owner Controlled Insurance Program	➢ In progress
6.	Various Fairness Monitoring Projects	➢ In progress
7.	Various Investigation Projects	➢ In progress
8.	Furniture Expense Review	➢ Planning
9.	Review of Development Charges Collections	➢ Planning
10.	YRT – Mobility Transit Audit	➢ Planning
11.	YRT – Contractor Invoicing Review	➢ Planning
12.	YRT – Review of Enforcement	➢ Planning
13.	Enterprise Resource Program Group (Peoplesoft)	➢ Advisory role
14.	Corporate Technology Review Committee	➢ Advisory role
15.	Electronic Document Management System	➢ Advisory role
16.	Records and Information Management Group	➢ Advisory role
17.	York Region Audit Services staff volunteer their time and combined hold the following positions: • Chair, Treasurer and Director of the Canadian Association of Local Government Auditors • Vice Chair of the Ontario Municipal Internal Auditors Association • Member, Association of Local Government Auditors Association Awards Committee and Program Committee	➢ Volunteer Association work

ATTACHMENT 2

Outstanding Audit Recommendations Follow up Audit Report

October 2012

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Section **Page No.**

1.0 Management Summary

Audit Services has completed a follow up of outstanding audit recommendations at August 31, 2012. These recommendations are comprised of:

1. Audit recommendations that were noted as 'not yet completed' in our previous outstanding audit recommendations follow up audit report dated June 2012.
2. Any new audit report recommendations issued up to and including August 31, 2012.

There were eleven audit recommendations originally issued through the two audit reports currently on our list for follow up. Prior to this review, five audit recommendations, or 45% had been implemented. From the remaining six recommendations, three have been implemented. At August 31, 2012, three recommendations, or 27% of the original eleven recommendations issued have not yet been implemented.

For a detailed summary of audit reports followed up and recommendations issued, completed and outstanding, please refer to section 4.0. Additional detail is available upon request from the Director, Audit Services.

2.0 Introduction

As part of our 2012 Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from the Audit Committee and Management, the Audit Services Branch performed a follow up of outstanding audit recommendations. These recommendations included those noted as outstanding in our June 2012 audit recommendations follow up audit report, and all new recommendations issued in audit reports up to and including August 31, 2011.

The Audit Plan, approved by York Region's (the Region's) Audit Committee, is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps to define the different risks associated with the various processes here at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

On a periodic basis, Audit Services updates the Regional Audit Committee and the Chief Administrative Officer (CAO) on the status of issued audit recommendations. To provide this update, Audit Services contacts Commissioners and Directors to confirm the status of the issued recommendation(s) relating to their area. In some cases, the status is further validated directly by Audit Services through discussions and / or detailed testing. This is an integral part of our audit process that allows us to confirm that the opportunities for improvement outlined in the audit report(s) have been implemented.

Department heads were e-mailed requests containing:

1. A summary of outstanding audit recommendation(s) for their area.
2. A request to provide a status update and a confirmation of the original due date for implementation of the recommendation, or a new anticipated implementation date if necessary.

3. Departments having an audit recommendation outstanding that have an original due date older than one year have been requested to provide the Audit Committee with a separate report as to why the recommendation has not been implemented.

   In November 2008, Audit Committee requested that Region management provide a written report to Audit Committee meeting these criteria. Management Action Plans that detail what was being done to implement the recommendation(s), was also requested.

4. Finally, an Executive Sign-off Form, to be signed by the Commissioner and Director responsible for the implementation of the recommendation(s), was also sent.

Audit reports issued after August 31, 2012 will be followed up in the future.

3.0 Objectives and Scope

The objective for this engagement was:

- To provide feedback to the York Region Audit Committee and CAO, as to the disposition of issued audit recommendations.

The audit scope to accomplish this objective was:

- All outstanding audit recommendations issued prior to August 31, 2012.

4.0 Detailed Observations and Recommendations

4.1 Detail Summary Statistics for Outstanding Audit Recommendations Followed Up

- Table A summarizes the outstanding audit recommendations followed up for this review.
- Table B is a summary of outstanding audit recommendations which were followed up for this review.
- Table C summarizes the outstanding private audit recommendations followed up for this review. *(Private)*
- Table D is a summary of outstanding audit recommendations which were originally presented private and followed up for this review. *(Private)*

TABLE A - Summary of Outstanding Audit Recommendations Follow up as at August 31, 2012

Audit Report	Number of opportunities originally highlighted	Previously completed	Completed for this review	Not yet complete	% Not yet complete	Date of Audit Report	Date Reported to Audit Committee
YRT – Southwest Depot (8300 Keele Street)	7	5	2	0	0%	May-11	Oct-11
Finance – Tangible Capital Assets Management	4	0	1	3	75%	Jan-12	Jun-12
Totals	11	5	3	3	27%		

TABLE B – Summary of Outstanding Audit Recommendations as at August 31, 2012

Audit Report	Recommendation	Management response	Original due date	Current due date
Finance				
Tangible Capital Assets (TCA) Management	4.1 A. Finance TCA update the TCA Policy to: 1. Assign periodic inventory counts to Operational areas. 2. Require Operational areas to create formal TCA procedure manuals	Amendments to TCA Policy re: inventory counts and TCA procedures manual are prepared and ready for submission to the CAO for approval.	Q3 2012 Q4 2013	Q3 2012 Q3 2012
	B. Finance TCA lead a project to help ensure Operations areas develop and maintain formal procedures manuals.	Finance has met with Operations areas re: development of procedure manuals to comply with the TCA Policy .	Q4 2013	Q4 2013
	4.2 Finance TCA help to ensure: 1. C&HS and CS develop an inventory listing.	Finance TCA has met with C&HS and CS to discuss their responsibility to reconcile asset balances to the GL.	Q4 2012	Done
	2. Operational areas develop timetables for periodic physical inventory counts.	Operational areas have been advised they will be required to develop timetables.	Q4 2012	Q4 2012
	3. Operational capital asset registries are reconciled to finance capital asset registry.	A plan to perform a reconciliation of Department asset listings with the GL will be developed.	Q2 2013	Q2 2013

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.3 Protocols should be developed to allow for consistent and relevant data attributes to be input into the Finance TCA registry.	Changes, where necessary, will be recommended upon completion of the review of data attributes and review by management.	Q3 2013	Q3 2013
	4.4 1. Review process associated with capitalization of vehicles with Transportation – Roads – Fleet. 2. Examine other vehicle purchases from 2011, and possibly 2010.	1. Transportation-Roads-Fleet has resumed proper processing and allocation of costs. 2. A review of 2011 vehicle purchases revealed $29,000 or 3% of costs was not included in the capital cost of vehicles for Transportation-Roads-Fleet.	None	Done
Transportation – York Region Transit				
YRT Southwest Depot	4.4 Calibration requirements of OPW fuel system to be investigated through the vendor, and, procedures put in place to help ensure ongoing system accuracy.	Annual inspection included in Asset Management system – next annual inspection is November 2012.	Q4 2011	Done
YRT Southwest Depot	4.7 Other assets to be included in M5 asset management application to help ensure that required maintenance is performed on those assets.	Maintenance schedules for program facility equipment at the garage have been added to the Asset Management system. Service operating contractors are responsible for performing this task in accordance with OEM specifications. YRT with monitor progress and compliance.	Q4 2011	Done

Financial Services – Information Technology Branch
Converged Network Project
Audit Report

April 2012

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1. Management Summary

Audit Services recentlycompleted an audit of the converged network project implemented in partnership with BellCanada (Bell) for the Regional Municipality of York (the Region). Our audit was conducted in accordance with the *InternationalStandards for the Professional Practice of Internal Auditing.* The purpose of this review was to substantiate the cost savings and benefits as proposed (and subsequently approved by Council) in the report presented on 25thMay 2005 by the Commissioner of Finance.

Our review confirmed the following:

Benefit stated on report to Council	Project Results
• Significant cost savings ($2.15 million in 5 years);	• Indeterminable – See section 4, point 1
• Providing long term telecommunication services consistent with Vision 2026, YRITS and One York	• Attained
• Value Added Network Services at a price which cannot be matched by increasing staff resources;	• Attained
• Avoiding obsolete technology (existing voice mail, some LAN gear on expiry);	• Attained
• Maintaining quality network services and reduce unscheduled downtime from 175 hours per year to 53 minutes per year;	• Attained
• Reducing the need to increase IT staff resources;	• Indeterminable – See section 4, point 1
• Simplified administration of moves, adds and changes; and,	• Attained
• Single point of accountability for network performance.	• Attained

Due to the absence of a project accounting system, Information Technology Services (ITS) Management was unable to provide an accurate total capital and operating expenditure figure and thus we could not determine if the cost savings were attained.

2. Introduction

In 2005, the Commissioner of Finance asked ITS to prepare terms of reference to phase out leased equipment for networking and telecom to prevent obsolescence and reduce costs. Subsequently an RFP was issued to select a vendor to implement the replacement systems.

In June 2006, the Region entered into a contractual partnership with Bell/Infostream to implement the converged network by 2010. This project comprised the following deliverables:

1. Convergence (Telephony and Data on a single network line)
2. Unified messaging (voice mail, faxes and email in a single mailbox)
3. SPOA (Single Point of Accountability for all Telephony and Data services)
4. Digital Telephony (Replacement of analog telcoequipment with digital switches)
5. Remote LAN services (Virtual Private Networking and Remote Access Services)
6. LAN upgrades to support the growth in sites, personnel and technical requirements
7. WAN upgrades to support the growth in sites, and other requirements

Subsequent to this contract, in 2009, Bell presented a proposal where the Region would buy out their leased equipment to significantly reduce their monthly charges. These savings would cover the proposed costs if the contract were to be extended by another two years to 2012. The Region subsequently agreed to this proposal and renewed the contract with the proposed extension and the capital equipment buyout, with the understanding that the renewal would also entail replacing the Bell network monitoring services with an internally managed facility. Prior to the contract change with Bell in 2009, Bell was responsible for monitoring five thousand (5000) ports (converged network connections), which has since devolved to the internal ITS team for ensuring their uptime and maintenance.

The converged network provides network licensing for two thousand (2000) users, unified messaging for all users, text to speech capabilities, seamless integration to the Region’s electronic fax services, and integration to the corporate email server. The Unity Server that delivers these capabilities also integrates with the existing Nortel PBX servers to make the transition seamless to the user community.

The major benefit to operations from this implementation included the capability to backup all unified messages from a single source (the Region’s email server); and to have a redundant voice/email server in case of a breakdown(this did not exist with the previous system).

The Wide Area Network (WAN) implementation of this converged system allows both voice and data communications over a single Ethernet line. It provides the capabilityto change over from telephone lines to a digital system that uses the internet for telephony (also called Voice Over IP or VoIP) thereby significantly reducing the costs associated with subscribing to trunk lines from telecommunication companies. This network also supports access by remote users.

Today the Region enjoys the benefits of a vastly simplified but much more capable network as a result of this implementation.

multiple communication modes in a single network offers convenience and flexibility not possible with separate infrastructures, such as the ability to optimize bandwidth, eliminate costs for multiple lines/connections/ports etc.

Users interviewed at sites cited their satisfaction with the near zero downtime, the productivity gains of unified messaging and voice mail, and the increased bandwidth available as a result of this project.

In our attempt to compute the actual cost savings resulting from the implementation, it was evident, that the financial systems have not as yet fully implemented the necessary project accounting features required to comprehensively report the project costs involved. In terms of overall scope, the network has grown from the seventeen (17) sites and one hundred and thirty (130) users on PBX systems originally covered by the scope of the Council approval, to the current forty three (43) sites and over two thousand (2,000) users on the replacement telephone systems. As result the original contract with Bell/Infostream underwent significant revisions as the project got underway to accommodate the scope changes, and towards the end had over five hundred change orders to meet the implementation requirements.

3. Objective and Scope

The objective of the audit was to determine if the converged network project had achieved its stated benefits, which included:

- Significant cost savings ($2.15 million in 5 years);
- Providing long term telecom services consistent with Vision 2026, YRITS and One York;
- Value Added Network Services atpricesnot to be matched by increasing staff resources;
- Avoiding obsolete technology (existing voice mail, some LAN gear on expiry);
- Maintaining quality network services and reduce unscheduled downtime from 175 hours per year to 53 minutes per year;
- Reducing the need to increase IT staff resources;
- Simplified administration of moves, adds and changes; and,
- Single point of accountability for network performance.

The scope of our review consisted of:

1. A review of the RFP, the Contract with Bell/Infostream, the Council reports and their approvals for this project to understand the scope and deliverables of the Converged network project;

2. A review of the project accounting reports, budgets vs. actuals for accounts related to the converged network, and the Purchase Orders for the converged network to assess the overall financial impact of this project;

3. Interviews with the members of the project team, the Bell Project Manager responsible for delivering the Single Point of Accountability (SPOA) services, members of the Region's IT operations responsible for supporting these systems, and members of two representative sites to ascertain,from a user perspective, how the project was implemented and how the systems have functioned since the implementation;

4. Review of the project status reports, and Council reports to ascertain and establish the reporting processes used to present the financials for this project and Council approvals.

5. Review of the transition binder to understand how the user community was trained and transitioned to the new systems; and

6. Interviews with the ITS accounting team to understand the reporting systems, standards and accounts required to report the overall project costs.

Details of our findings are contained in the next section of this report.

We wish to thank Region management, staff, and Bell/Infostream, for their co-operation and assistance in providing Audit Services with requested documentation and timely responses.

4. Observations and Recommendations

1. Cost Savings

The original business case presented to Councilindicated that $2.15 million in savings would be realized byphasing out the legacy telecommunication systems and services with a new Converged Network agreement with Bell. However, during the audit, ITS management maintainedthat the savings identified in their report to Council, could not be ascertained as:

1. The Region did not have a project accounting system to track project expenditures and report aggregated capital and operating costs; and

2. The Region experienced significant growth during this period. The network grew from nineteen (19) sites to forty-one (41) by December, 2009 as the Region built new buildings and expanded their existing locations; new hires were made and they required additional networking and telecommunications capacity, handsets, and licenses.

Other significant scope changes included the addition of a major new Regional building in Oak Ridges, inclusion of two Long Term Care sites to move them into the Region’s telephone network and a high availability/reliability solution to backup the voice mail system.

We were also advised by ITS management that four (4) additional FTEs approved at the time of the project to manage the network monitoring facilities taken over from Bell. However, given the short fall in project records, we were unable to verify the number of employees hired since 2006 that were involved in the converged network project.

Recommendations:

For all future ITS projects, in order that project accounting is organized in a fashion that will provide financial accountability and dependable record keeping, ensure that all costs are tracked either through PeopleSoft (i.e. back to their source GL accounts) or on a separate system which can be subsequently reconciled. In Audit’s opinion, this is a basic requirement of all project managers, and is documented as a basic guideline under the Project Management Institute’s *Project Management Body of Knowledge*.

Management comments:

ITS Management has reviewed the above report and concurs with its observations and recommendations.

As noted above, in the absence of an enterprise project costing system in 2005 when the project began, the team stored the invoices, scope change and impacts of Region growth in documentsin eDOCS for future analysis. The unexpected volume of documents now present in eDOCS makes the analytics to verify project savings impractical.

Beginning in 2009, Information Technology Services implemented the following:

1. In 2009, Information Technology Services assigned, in PeopleSoft, 5 digit sub-class codes to each Capital project. In 2010, 2011, and 2012, project budgets were entered into PeopleSoft with the sub-class code. This enabled both project cost reporting and variance reporting against the project budget.

2. In 2012, Information Technology Services acquired and began implementing the Microsoft Project Server software. This software will enable a much more comprehensive set of tools to plan and budget for Information Technology Services' Capital Projects

In the 1st quarter of 2013, Information Technology Services will link Microsoft Project Server data to the PeopleSoft enterprise Project Costing System.

In 2013, Information Technology Services will drop the 5 digit sub-class code and begin using the corporate PeopleSoft Project Costing System. This system provides a 15 digit project code which incorporates the previous 5 digit sub-class code and a 5 digit Microsoft Project code. This will enable recording project expenses as well as linking to the information in Microsoft Project Server for variance analysis and reporting. As of January 1, 2013, instead of coding a 5 digit "Subclass" on their invoices, Managers and Project Managers will be coding the PeopleSoft Project ID which contains both the 5 digit Subclass followed by the 5 digit Microsoft Project ID. This will allow us to connect the projects in Microsoft Project Server with the Project costing information in PeopleSoft.

Original signed by

Karen Close

Acting Director, Information Technology Services

Original signed by

Bill Hughes

Commissioner – Finance

Original signed by

Paul Duggan

Director Audit Services