1
AUDIT SERVICES BRANCH REPORT

The Audit Committee recommends the adoption of the recommendation contained in the following report dated September 10, 2011, 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 4, Tables C and D, follow up of outstanding audit points from the Wireless Security audit report are private attachments as they address 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 2009 – 2011 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 for October, 2011 Audit Report (*Attachment 2*)

- York Region Transit – Southwest Depot (8300 Keele Street) Audit Report (*Attachment 3*)

5. FINANCIAL IMPLICATIONS

None.

6. LOCAL MUNICIPAL IMPACT

None

7. CONCLUSION

A follow-up of outstanding audit recommendations for audit reports issued prior to September 1, 2011 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 three attachments referred to in this clause were included in the agenda for the October 6, 2011 meeting.)

ATTACHMENT 1

AUDIT SERVICES BRANCH ACTIVITIES

Project Name		Status
1.	Outstanding Audit Recommendations Follow Up October 2011	➢ Completed
2.	Management request - Contract compliance audit - Georgina Transit	➢ Complete
3.	Management request – Review of policy changes for Long Term Care	➢ Complete
4.	YRT – Southwest Depot (8300 Keele) Audit Report	➢ Complete
5.	2012 – 2014 Audit Plan	➢ Complete
6.	Roads – Operations & Safety Audit	➢ Reporting
7.	Management request - Review YRT Vault access	➢ Reporting
8.	Dongara Contract Compliance Audit	➢ Reporting
9.	Capital Asset Management	➢ Planning
10.	Human Resources – Staffing procedures	➢ Planning
11.	Various Investigations	➢ In progress
12.	Various Fairness Monitoring Projects	➢ In progress
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.	Program Reviews	➢ Member of Steering Committee
18.	Outside Organizational work	➢ Vice Chair, Municipal Internal Auditors Association ➢ Chair, Treasurer and Board Member, Canadian Association of Local Government Auditors ➢ Association of Local Government Auditors Peer Review Team Member

Outstanding Audit Recommendations Follow Up Audit Report

October 2011

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Section **Page No.**

1.0 Management Summary

Audit Services has completed a follow up of outstanding audit recommendations. 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 2011.
2. Any new audit report recommendations issued up to and including August 31, 2011.

There were 39 audit recommendations originally issued through the five audit reports currently on our list for follow up. Prior to this review, 31 audit recommendations, or 80% had been implemented. From the remaining 8 recommendations, 4 have been implemented. At August 31, 2011, 4 recommendations, or 10% of the original 39 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 2011 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 2011 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.

Management Action Plans that detailed what was being done to implement the recommendation(s), was also requested.

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, 2011 will be followed up in the future.

Additionally, Audit Committee, at the February 14, 2008 meeting, requested management provide a report to Audit Committee for any outstanding audit recommendations that remain outstanding greater than a year. This will be done annually, with the next reporting due to Audit Committee in February 2012.

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, 2011.

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 in-camera audit recommendations followed up for this review. *(In camera)*
- Table D is a summary of outstanding audit recommendations which were originally presented in camera and followed up for this review. *(In camera)*

TABLE A - Summary of Outstanding Audit Recommendations Follow up as at August 31, 2011

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
Finance - Payroll	6	5	1	0	0.0%	Oct-07	Nov-07
Fleet Audit - Corporate Level	8	6	0	2	25.0%	Apr-05	Jun-05
W&Ww - Environmental Services	14	13	1	0	0.0%	Sep-09	Nov-09
W&Ww - Finance	2	1	0	1	50.0%	Sep-09	Nov-09
Procurement & Accounts Payable	4	3	1	0	0.0%	Apr-10	Jun-10
Procurement & Accounts Payable	2	1	1	0	0.0%	Apr-10	Jun-10
Housing Administration	3	2	0	1	33.3%	Aug-10	Feb-11
Totals	39	31	4	4	10%		

TABLE B – Summary of Outstanding Audit Recommendations as at August 31, 2011

Audit Report	Recommendation	Management response	Original due date	Current due date
Finance				
Fleet – Corporate	1.0 Develop and implement Corporate and Department level fleet policy and procedure manuals. Ownership of Corporate level to belong to Insurance Risk management. Ownership of Department level manual to belong to the fleet areas within the department.	Director of Policy, Risk & Treasury has asked for Risk staff to ensure continuity of terminology and language throughout the document given all the versions that have been drafted over the years. This final draft incorporates all changes requested by Legal and Human Resources in meeting of first quarter of 2011. However environmental scan of processes used by other municipalities requires updating as part of background material. This is to be completed at Municipal Risk conference in Sept 2011. The final draft will then be sent to Legal and Human Resources for review with updated background material before proceeding to the CAOs office by mid-November 2011 for review and implementation.	Q1 2005	Q4 2011
Fleet – Corporate	3.0 Periodic driver abstract collection.	Legal and Human Resources have given recommendations which have been incorporated into the above mentioned document. Risk review of final draft for language and terminology continuity is being conducted and background information updated at Municipal Risk Forum in Sept 2011. Human Resources and Legal will review/signoff and then the policy will be sent to CAOs office in mid-November 2011 for final review.	Q4 2005	Q4 2011
Finance				
W&Ww Capital Delivery	6.1 Clarifying information and maintenance for the Capital Project Status Report	The Total Project Budget Authority Approach was introduced in 2010. Budget / actual variances will be available for 2011. Capital is currently in the midst of redesigning specifications to accommodate this new approach into the quarterly progress reporting. The revised report is anticipated to be completed and available for quarterly reporting by year end 2011.	Q2 2010	Q4 2011

Audit Report	Recommendation	Management response	Original due date	Current due date
Community & Health Services				
Housing Administration	4.1 Housing management to ensure that Housing Rent Supplement & Financial Services binder is update to include managerial & supervisory process and controls.	Consultant not engaged to incorporate supervisory and management functions into process maps. Plan to update using internal resources.	Q4 2010	Q4 2011

York Region Transit – Southwest Depot (8300 Keele Street) Audit Report

May 2011

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1.0 Management Summary

We have completed an audit of the lease agreement and the fuel contract relating to the 8300 Keele Street facility. Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

We have concluded that improvements are required to ensure that there are adequate management controls in place over the accounting and reconciliation of fuel, and the maintenance of the fuel tanks and a portable hoist. York Region Transit (YRT) management has been very co-operative and is currently addressing, or planning to address areas where internal controls require improvement. These improvements include monthly verification of pricing on fuel invoices, preparation of monthly fuel reconciliations, management review and approval of monthly fuel reconciliations and exception reporting, periodic calibration of the OPW system, formalizing procedures relating to the fuel reconciliation process, and ensuring that required maintenance on the fuel tanks and the portable hoist is performed.
Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank YRT staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

York Region entered into a five year agreement with Veolia to operate transit service in the South West area of the Region commencing in August 2010. The service started in a new operations and maintenance facility at 8300 Keele Street which was not fully commissioned at the time. Also, under the agreement with Veolia, the Region was responsible for supplying the fuel to operate the transit service through a new contract with Ultramar for supply and delivery of fuel to several locations including 8300 Keele Street.

As part of the new facility, an automated fluid management system and new underground fuel tanks were installed to manage fuel and other fluid receipts, dispensing to YRT buses, and fluids used in the maintenance of buses. The underground tanks contain an electronic probe which measures the fluid level at any point in time (real time). Initially there were some issues in accurately determining the fuel inventory due to the "egg shape" of the underground fuel tanks, and leveling issues due to the manifold (a pipe connecting the two tanks). Also, other commissioning and training activities on the fuel system and other program related equipment were being conducted. OPW (the vendor) assisted in addressing these issues in the Fall and it appears that these issues have now been resolved as the large variances between the amount of fuel that Ultramar has delivered, and the OPW system measurements are down to much lower levels (<1% difference) in January and February of 2011.

3.0 Objectives and Scope

The objectives of this engagement included ensuring that:

- Controls over fuel management (delivery/usage/accounting) are adequate.
- Capital assets located at 8300 Keele Street, belonging to York Region are being maintained in accordance with the Veolia Lease Agreement.

The audit objectives were accomplished through:

1. A review of the fuel management system.
2. Reconciling the book to physical fuel inventory for January and February 2011.
3. Interviews with appropriate personnel.
4. Detailed testing and review of related documentation.

4.0 Detailed Observations

4.1 No Documented Policies and Procedures for Fuel Reconciliation and Accounting Processes

Observation
Formal Policies and procedures were in place for Fuel Ordering and Delivery, and Bus Fuelling, however there were no formally documented policies and procedures relating to the fuel reconciliation and accounting process. Documentation of these processes enhances the control environment by ensuring that expectations are understood.

Recommendation
Policies and procedures relating to invoice processing, approval and the reconciliation processes should be documented and communicated to staff and management.

Management Response
The original process document dealing with ordering, delivery and payment has been expanded to incorporate fuel reconciliation. This has been completed.

4.2 Verification of Fuel Pricing on Invoices

Observation
Prices charged on fuel invoices are not being verified to ensure that we are charged the correct price. We did not identify any pricing errors in our testing of the January and February invoices, however this is a key control to ensure that prices charged are accurate.

Recommendation
Invoice pricing should be checked to the Ultramar Price Change Notifications and should be documented on the invoice before it is sent for management approval. Management should ensure that the pricing has been verified as one of the checks when approving invoices.

Management Response
This recommendation is being adhered to as of August 1, 2011.

4.3 Bi-weekly Fuel Delivery Reconciliations

Observation
The method used to calculate variances between invoiced litres and litres received per the iSite system is problematic. In calculating the variance for the month it uses the tank capacity as the denominator rather than the total number of litres delivered that period. Because the fuel is being used and re-filled, capping the denominator at 200,000L will result in an increased variance directly proportional to the number of deliveries received. In addition, there is no management review of the reconciliation.

Recommendation
The variance between litres delivered per iSite and litres per invoice should be calculated as a percentage of the total litres delivered rather than tank capacity. Management should review and sign the reconciliation monthly.

Management Response
This recommendation is being adhered to as of August 1, 2011.

4.4 Calibration of OPW Fuel System

Observation
Management is not aware of calibration of the iSite system. No one is aware of whether the system is self-calibrating, or if calibration is required periodically to ensure that the system measurements are accurate.

Recommendation
Management should contact the vendor to determine what (if anything) is required to calibrate the iSite system to ensure that measurements continue to be accurate. Any action required on the Region’s behalf should be documented in the policies and procedures to ensure that the system is calibrated periodically if required.

Management Response
The fuel system vendor was contacted and provided documentation on calibration. The document indicates that an annual inspection is required by the vendor on the fuel pumps at the maintenance facility. The fuel is dispensed, checked and calibrated with the fuel reading on the pump during the inspection. The annual inspection is scheduled for November 2011 and will be conducted annually going forward.

4.5 Monthly Fuel Inventory Reconciliation and Variance Analysis

Observation
The monthly Tank Reconciliation Report does not reflect delivered litres per invoice, and does not have appropriate cut off dates at month end and consequently does not permit an accurate reconciliation of accounting records to physical fuel on hand. In addition, there is no management review of the monthly reconciliations.

Recommendation
The Tank Reconciliation Report should be used to complete a month end comparison of accounting inventory on hand to physical inventory on hand by adjusting the delivered amounts to reflect invoiced litres, and ensuring that there is appropriate month end cut-off. This report should be reviewed and signed by management monthly.

Management Response
This recommendation is being adhered to as of August 1, 2011.

4.6 Management Review of Exception Reporting

Observation
The M5 (asset management) system generates exception reports when there are unusual consumption levels for individual buses. Staff is reviewing the exception reports, however they are not reviewed by management. The review of exception reports by management is a key control in ensuring that issues relating to maintenance of buses, and efficient use of fuel are addressed on a timely basis.

Recommendation
Management should sign/review exception reporting weekly to ensure that unusual consumption issues are explained/addressed/corrected.

Management Response
This recommendation is being adhered to as of August 15, 2011.

4.7 Maintenance Tracking

Observation
There is no system in place to ensure that required maintenance on the fuel tanks and the portable hoist (as required in the lease agreement) is carried out. Veolia is required to perform regular maintenance on these assets, however we were unable to determine whether it was being done.

Recommendation

Management should include assets other than the buses in the M5 (asset management) system to ensure that required maintenance is performed on a timely basis.

Management Response

The plan is to ensure that the asset management for fleet is fully functional. The next stage will be to include facility equipment at the garage facility into M5 and is scheduled to commence in Q4 2011 and be completed by Q2 2012.

Original signed by

Kathleen Llewellyn-Thomas

Commissioner

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Director Audit Services