

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: July 29, 2014

SUBJECT: PricewaterhouseCoopers LLP 2013 Management Letter Follow-up Report

ACTION ITEM

RECOMMENDATION

It is recommended that the Audit Committee:

- 1) Receive the attached follow-up report on the PricewaterhouseCoopers LLP (PWC) management letter, for information, and
- 2) Approve the forwarding of the attached report to a regular meeting of the TTC Board for information and then forward this report to the City Clerk for appropriate committee referral.

BACKGROUND

The PWC audit results report, presented at the May 28, 2014 TTC Audit Committee meeting, included a management letter on internal control recommendations. A management letter provides recommendations for the improvement of internal controls and accounting procedures. Management's initial response to these recommendations was included in the May 28th report. PWC's recommendations and the initial management response are reproduced in the attachment. This is followed by a status update detailing the action staff has taken to address the recommendations.

Based on the City of Toronto Audit Committee July 2004 Report 4, Clause 2 Recommendation 3, the TTC is required to provide an update of outstanding issues raised in the management letter, within six months after the issuance of the management letter.

DISCUSSION

PWC initially provided one recommendation in the management letter presented at the May 28, 2014 TTC Audit Committee meeting and this recommendation is currently in progress, as detailed in the attachment. All action taken to date will be subject to review by PWC during the 2014 external financial statement audit.

PricewaterhouseCoopers LLP 2013 Management Letter with July 2014 Update

1) Timely review of account reconciliations

Observation

During the course of our audit, we noted several instances where account reconciliations were not reviewed on a timely basis or were not completed accurately. In particular, we noted in that the daily reconciliation of the pass vending machines and the monthly token vending machine reconciliation were not consistently reviewed by a supervisor during the year. In addition, the year-end accounts payable reconciliation was not prepared accurately and errors contained in the reconciliation were not detected on management review.

Implications

Reconciliations that are not prepared accurately and not reviewed on a timely and thorough basis increase the risk of a misstatement in TTC's financial records and further, the risk of undetected fraud increases.

Recommendation

Management should ensure the timely and thorough supervisory reviews of all reconciliations performed in order to ensure the accuracy of the related balances. Steps should be taken in order to ensure that there are alternate reviewers in place in the case of the absence of senior employees.

Management Response

We agree. An Acting Supervisor of Vending Machines was recently hired to fill the vacancy caused by a long term disability of the incumbent Supervisor. Once fully trained, this key role will allow for consistent supervisory review of the daily and monthly reconciliations of the vending machines. Training sessions with a subject matter expert who was instrumental in the development of the Fare Media Management System (FMMS) vending machine database have started with the Acting Supervisor and other members of management who will act as back up. This training will provide staff with the knowledge and skills to manage the balancing of the vending machines and review of the reconciliations. By September 1, 2014 the training of all of the supervisory and management staff will be complete.

Going forward the vending machine reconciliations will not be considered complete or filed until a review by Management has been completed and signed off. 100% completion of these reviews will be added to the Supervisor Vending Machines goals and objectives.

Accounts Payable is implementing a process in 2014 to ensure the IFS subledger to general ledger reconciliation is prepared consistently and accurately. The new process will ensure the weekly reconciliation of the IFS subledger to general ledger will identify any reconciling items allowing them to be cleared on a timely basis. This weekly reconciliation will be reviewed and signed-off by Supervisory staff and the yearend reconciliation will also be reviewed and signed-off by the Director, Payments & Systems.

July 2014 Update

The Supervisor of Vending Machines has begun training with the subject matter expert on a weekly basis and significant progress has been made in completing the Token Vending Machine reconciliations. We are on track for the September 1, 2014 target date to complete the training of the supervisory staff and have consistently reviewed all completed vending machine reconciliations. Accounts Payable is in the process of updating system reports and implementing a process to ensure the IFS subledger to general ledger reconciliation is prepared consistently and accurately and any reconciling items are cleared on a timely basis. We are on track to be fully implemented by September 1, 2014.

Status

In Progress