



Audit, Risk and Compliance Report: An Integrated Strategy & Flexible Work Plan (2019)

Date: February 26, 2019
To: Audit and Risk Management Committee
From: Head of Internal Audit

Summary

The Internal Audit Department and Risk Management Office have been reorganized into one assimilated Group – the Audit, Risk and Compliance Department (ARC). The ARC Department reports functionally to the Audit Risk Management Committee (ARMC) and administratively to the TTC's Chief Executive Officer. Uniting the Internal Audit Department and Risk Management Office in this manner ensures the independence of audit and compliance work will continue to support the ARMC in fulfilling its oversight responsibilities. In addition, the transparency of enterprise risk assessment and the evaluation of organizational resiliency will be enhanced.

The intent of the new ARC Group is to strengthen the corporate Governance, Risk and Control (GRC) Framework and to support TTC Management in its endeavours to reliably achieve corporate objectives while addressing uncertainty and acting with integrity. By adopting a simplified, intuitive, sustainable business model that removes silos and supports risk owners, the ARC Group aims to provide value added assurance and advisory services to TTC Management.

Concentrated and successful efforts have been made to attract new talent to the ARC Group. The resulting diversity of skills, experience, knowledge and professional accreditations held by ARC staff positions the Group well for enabling the ARC Strategy. The improved coordination and utilization of varied professional staff resources will ensure audit, risk and compliance related matters are addressed in a collaborative, holistic and agile manner in response to complex and dynamic business environments.

In accordance with the TTC Audit and Risk Management Committee's Terms of Reference, the ARC Department is submitting its Flexible Work Plan (2019) to the TTC ARMC for approval (see Attachment 1).

The previous Internal Audit Department has provided the ARMC with quarterly updates on the progress of 2018 planned internal audit activities throughout the year. A chronology of reports issued from 2016 to 2018 has been included as a reference in Attachment 2 of this Report.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

1. Approve the Audit, Risk and Compliance Report: An Integrated Strategy & Flexible Work Plan (2019) with attachments.
2. Forward a copy of the Audit, Risk and Compliance Report: An Integrated Strategy & Flexible Work Plan (2019) with attachments to the TTC Board for information.

Financial Summary

The recommendations in this Report have no additional funding implications beyond the combined costs of the Internal Audit Department and Risk Management Office that were included in the 2019 Operating Budget and approved by the TTC Board on January 24, 2019.

Equity/Accessibility Matters

There are no accessibility or equity impacts associated with this report.

Decision History

The mandate of the Audit and Risk Management Committee (ARMC) was reaffirmed by the new TTC Board on January 10, 2019. The ARMC assists the TTC Board in fulfilling its oversight responsibilities in a number of areas, including the audit function, regulatory audits, enterprise risk management, system of internal control, compliance with laws and regulations, and internal special investigation activities. An expectation of the ARMC is to approve the newly formed Audit, Risk and Compliance Department's Strategy and annual Flexible Work Plan.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2019/January 10/Reports/9 TTC Board Governance and 2019 Meeting Schedule.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2019/January%2010/Reports/9%20TTC%20Board%20Governance%20and%202019%20Meeting%20Schedule.pdf)

Issue Background

The newly formed Audit, Risk and Compliance Department has prepared its proposed Strategy and Flexible Work Plan (2019) for review and approval by the Audit and Risk Management Committee.

Comments

ARC Flexible Work Plan (2019)

In accordance with the TTC ARMC's Terms of Reference, the ARC Department is submitting its Flexible Work Plan (2019) to the TTC ARMC for approval (see Attachment 1).

By conducting risk-based operational and performance audits, that include testing and validation of controls, adherence to corporate policies and best practices, and compliance with key legislation and regulations, ARC supports the ARMC in its oversight responsibilities and steward of public funds.

By conducting comprehensive risk and organizational resiliency assessments, ARC intends to support TTC senior management in their efforts to monitor emerging risks, improve mitigation strategies and analyze options for achieving corporate goals and objectives, strengthening accountability for meeting strategic and operational performance expectations, and enforcing greater integrity and transparency in governance and decision making.

ARC combined the results of TTC ARMC/Board member and Executive management interviews and risk analysis with a review of the 2018-2022 corporate plan. We also reviewed the legacy corporate enterprise risk register, and the activities of other internal and external assurance service providers and compliance functions. Through this analysis, ARC identified areas of interest that align with strategic objectives to ensure value and relevance. Further, assurance and advisory work within these identified topics will provide useful information for senior management and the ARMC as to the adequacy of related risk management, control and governance systems.

This listing of ARC topics is dynamic and not exhaustive. The fourteen areas of interest identified in ARC's Flexible Work Plan (2019) are deemed to be of the highest priority. However, completion is dependent upon actual ARC resources available throughout the year, results of preliminary data analytics performed, and emerging issues.

Regular, open and transparent communication with senior management, business risk owners and the ARMC is critical to the Department's success in being adaptable to changes in TTC's risks and priorities. Therefore, the ARC Strategy and Flexible Work Plan (2019) reflects the assumption that support will be provided during the year to accommodate Executive Management and ARMC/Board requests.

The Flexible Work Plan also allows for other important ongoing internal audit activities, including: monitoring management action plans from past internal and external audits; ongoing risk assessment; departmental initiatives and improvements; learning and development; consulting and regulatory compliance services; and liaison with other relevant internal/external providers of assurance.

Chronology of Internal Audit Work (2016-2018)

Quarterly updates as to the progress of 2018 planned internal audit activities have been provided to the ARMC throughout the year. However, for the benefit of new ARMC and Board members, a chronological summary of reports issued to the ARMC and/or submitted to senior TTC management since 2016 has been prepared (see Attachment 2).

In 2018, Internal Audit completed a number of audits and special request assignments where safety/security elements were covered, and identified areas where further assurance and/or advisory support may be provided going forward. Specifically:

- *Surface Collisions & On-Board Incidents (2018 Work Plan)*: Given an unfavourable trend of surface collisions since 2016 and the significant cost of claims payments, Internal Audit reviewed the delivery and outcome of safety initiatives implemented with the intent to reduce surface collisions and on-board incidents. We concluded there is a fundamental need to pursue road collision risk mitigation strategies more aggressively and holistically to address root causes of incidents, and to improve transparency in the evaluation and reporting of safety initiative outcomes. These observations and more recent collision incidents prompted Management to work with a facilitator in January 2019 to bring together diverse internal groups for purposes of devising comprehensive and integrated solutions to reduce, and ultimately prevent, Bus Collisions. ARC will support this initiative as deemed appropriate going forward and monitor Management's implementation of action plans as part of regular, ongoing follow-up work (2019 ARC Flexible Work Plan).
- *Subway Track & Tunnel Work (2018 Work Plan)*: Work at track level is inherently risky and one of the most hazardous environments for TTC workers. The TTC has experienced near miss incidents and worker fatalities over the years, each of which gets investigated by the Ministry of Labour. Recommendations for improvements are usually put forth following investigations, as well as, through APTA audits. Internal Audit assessed track access management controls and key safety measures in place to protect track level workers, including adherence to portable gas monitoring controls and procedures. We noted that while initiatives to improve the scheduling of track access and reduce safety risk exposures for track level workers have been made, significant efforts need to continue. Our observations prompted Management to conduct a full analysis of the risks posed by exposure to internal combustion gases in subway tunnels, and their results were presented to the ARMC in tandem with other management action plans associated with this audit. ARC will monitor Management's implementation of action plans as part of regular, ongoing follow-up work (2019 ARC Flexible Work Plan).
- *Emergency Management (2018 Work Plan)*: It is fundamental that the TTC has in place a comprehensive Emergency Management Program should a major incident or emergency occur. Internal Audit planned to review risk mitigation around subway station platform crowding and management of the Stations Emergency Desk. However, on January 30/18, a series of events took place that resulted in a serious subway platform crowding situation. This prompted Management to undertake an internal safety investigation and implement immediate measures aimed at

addressing station staffing issues and communication protocols. We concluded that conducting an audit of TTC's emergency management planning, response and recovery framework would be of greater value following completion of a comprehensive gap analysis and integration of existing plans, including those that address platform crowding. In keeping with best practice of ensuring TTC is a resilient organization, an internal subject matter expert was tasked to critically examine the current state of TTC's emergency readiness and develop a Roadmap strategy for closing gaps to achieve a more resilient end state over time. Internal Audit provided advisory support regarding scope, methodology and progress reporting, and ARC staff will continue to support the implementation of approved Emergency Management/Business Continuity Roadmap priorities and completion of departmental resiliency assessments through its new Risk Advisory section (2019 ARC Flexible Work Plan).

Internal Audit identified in its 2018 Work Plan its intention to review the changing fare evasion risk environment to ensure fare inspection activities are risk based and would effectively support a comprehensive fare evasion study following full implementation of PRESTO. This work took into account that TTC has implemented significant changes to modernize its systems and improve customers' experience in recent years, and continues to be in a state of transition which impacts revenue control and fare evasion risks. Also, while evasion risk mitigation strategies and controls have historically been designed to address risk areas of greatest concern while working in tandem with changing fare policy and customer service goals, a transit agency's calculated fare evasion rate is the function of many factors, most importantly the methodologies adopted and the strategic objectives of its fare enforcement model and inspection program.

The City of Toronto Auditor General communicated to TTC in early October 2018 her intent to review controls designed to minimize revenue losses due to fare evasion, including the TTC's Transit Fare Inspection Program. Therefore, to minimize duplication of audit efforts, Internal Audit shifted its focus to supporting Management's understanding of the intricacies of TTC's past, current and emerging fare evasion risk landscape, and will ensure recommendations as reported to the TTC Board in February 2019 by the Auditor General are implemented (2019 ARC Flexible Work Plan).

Finally, Internal Audit identified two audit topics intended to support progress and insight with respect to the corporate goal of Ridership & Service Reliability. The first was to assess processes for monitoring adherence to bus service standards and to make adjustments to address bus vehicle overcrowding issues. The second was to review asset management strategies and related emergency preparedness for identified critical subway infrastructure.

Planned work was deferred for a variety of reasons including limited internal audit resources. Also, the January 30/18 subway platform crowding incident prompted much attention to be given by senior management to assessing the root causes of subway infrastructure problems and the effectiveness of TTC response strategies. ARC will review management's efforts and progress made with respect to addressing areas of concern in conjunction with operational resiliency assessments and disruption management (2019 ARC Flexible Work Plan)

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Attachments

Attachment 1 – Audit, Risk and Compliance (ARC) Flexible Work Plan (2019)
Attachment 2 – Chronology of Internal Audit Work (2016-2018)

Audit, Risk and Compliance (ARC) Flexible Work Plan (2019)

Strategic Focus: Financial Sustainability & Revenue Protection (Critical Path #1)		
1	<i>Procurement/Purchasing Models & Frameworks: Competitive Bidding, Negotiation & Sourcing (Assurance/Advisory)</i>	Review to assess the level of competitive tension and whether the basis and weighing of selection criteria, and vendor/contractor selections, are unbiased.
2	<i>Review of Select Operating/Capital Projects/Contracts: Project Management/Third Party Risk Management/Contract Compliance (Assurance/Advisory)</i>	Review to ensure adherence to key contract terms and conditions, and overall efficient and effective project management and third party risk management.
3	<i>Transit Fare Inspection and Enforcement Model: Management Support & Audit Follow-up (Assurance/Advisory)</i>	Support will be provided to Management to ensure recommendations as reported to the TTC Board in February 2019 by the City of Toronto Auditor General are implemented.
Strategic Focus: Employee Engagement & Culture (Critical Path #2)		
4	<i>Ministry of Transportation (MTO): Driver Certification Program: Specified Inspection Procedures (Compliance Review)</i>	Perform specified procedures as defined by MTO to ensure compliance with applicable standards.
5	<i>Investigative Services Alignment: Fraud, Theft & Misuse of Assets Root Cause Analyses (Ongoing Assurance/Advisory)</i>	Perform root cause analysis of completed investigations and support ongoing investigations, the results of which will facilitate ongoing fraud risk assessment.
6	<i>Corporate Ethics & Compliance Program (Assurance/Advisory)</i>	Support the Special Operations Group within Investigative Services in its efforts to develop a corporate ethics program.
Strategic Focus: Ridership & Service Reliability (Critical Path #3)		
7	<i>Operational Resiliency & Disruption Management (Assurance/Advisory)</i>	Conduct comprehensive risk assessments and resiliency evaluations to assess mitigation strategies designed to minimize the impact of operational disruption and support timely response and recovery.
8	<i>Bus Transportation: Operator Workforce Management – A Divisional Comparison (Special Request – Assurance)</i>	Review and compare practices and tools used by divisions to manage operator workforce and meet service delivery expectations.
Strategic Focus: Customer Strategy & Communications (Critical Path #4)		
9	<i>Stations Transformation Project: Governance and Risk Management (Assurance/Advisory)</i>	Review key elements of project management (e.g., integrated risk management, schedule coordination/interdependencies, status reporting, oversight and project governance).

Audit, Risk and Compliance (ARC) Flexible Work Plan (2019)

Strategic Focus: Technology & Innovation (Critical Path #5)		
10	<i>IT Risk Management – Gap Analysis (Advisory)</i>	Review current state of IT risk management and level of integration with corporate strategic planning and define optimal end state.
11	<i>ITS Quality Assurance Program: Consultation (Ongoing - Assurance Mapping)</i>	Regularly consult with ITS Quality Assurance staff to review their Work Plan and leverage results as part of ongoing efforts to achieve efficiencies and advance our assurance mapping.
Strategic Focus: Safety & Security (TTC Cornerstone)		
12	<i>Bus Collision Reduction Strategy: Surface Collisions Audit Follow-up (Advisory)</i>	Support will be provided to Management in their efforts to develop and implement a Bus Collision Reduction Strategy.
13	<i>Camera Strategy: Video Surveillance Audit Follow-up (Advisory)</i>	Support will be provided to Management in their efforts to develop and implement a Master Camera Strategy.
14	<i>Emergency Management: Gap Analysis Results/Roadmap Delivery (Advisory)</i>	Facilitate the presentation of the completed Emergency Management/Business Continuity Gap Analysis and Roadmap developed to guide the implementation of action items aimed to achieve targeted standards, best practices, and alignment with City of Toronto's program and plans.
Strategic Focus: Governance/Risk/Control Framework Improvements & Oversight (Ongoing)		
	<i>Enterprise Resiliency Program – Development of a New Model (Organizational Resiliency Assessment & Mitigation Support)</i>	
	<i>Legal & Regulatory Compliance Risk Assessment & Development of Annual Certification Tool (A Phased Approach)</i>	
	<i>ARMC Directives: Strategic Risk Assessment, Best Practice/Benchmark Reviews and Options Analysis</i>	
	<i>ARMC Reporting Enhancements & Adherence to Terms of Reference</i>	
	<i>Past Audit Follow-up & Management Action Plan Tracking – Accountability Enhancements</i>	
	<i>Internal Governance Committees – Attendance/Review</i>	

Chronology of Internal Audit Work (2016-2018)

Strategic Focus: Safety & Security (TTC Cornerstone)
• (2018) Surface Collisions & On-Board Incidents (Assurance)
• (2018) Subway Track & Tunnel Work (Assurance)
• (2018) Contract Management Review: Edgetch Facility Gas Monitoring (Special Request - Assurance)
• (2018) Emergency Management (Advisory - Gap Analysis)
• (2017) F/U Audit: Video Surveillance (Assurance/Advisory)
• (2016) F/U Audit: Transit Enforcement Unit (Assurance)
Strategic Focus: Financial Sustainability & Revenue Protection (Critical Path #1)
• (2018) Transit Fare Inspection/Enforcement Model (Assurance)
• (2018) Review of Select Contract Terms and Conditions (Advisory)
• (2018) Consultant Billing Rate Review: Select Capital Projects (Assurance)
• (2017) Contract Management Review: Repair of LIMS (Assurance)
• (2017) Use of Consultants
• (2017) SAP Contract Staff Review (Special Request - Analysis)
• (2016) Payment Controls Review (Part 1 & 2) (Assurance & Analysis)
• (2016) F/U Audit: IPAC Paving (Special Request – Assurance)
• (2016) Contract Management: P-Card Program (Assurance & Analysis)
• (2016) TYSSE: Move Ontario Trust Funds Review (Special Request – Assurance) (Served as TYSSE Independent Auditor from project inception to 2016)
• (Ongoing) PRESTO CSAE 3416 Report (Advisory)
Strategic Focus: Employee Engagement & Culture (Critical Path #2)
• (2016) Review of Green Shield Canada's Fraud Prevention & Detection Program (Special Request – Advisory)
• (2016) Skilled Trades Management
• (2016) Ministry of Transportation – Driver Certification Program: Specified Inspection Procedures (Compliance Review)
• (Ongoing) Investigative Services Alignment – Fraud, Theft & Misuse of Assets Root Cause Analyses & Integrity Line Support (Assurance) <ul style="list-style-type: none"> ○ 2016: Payroll Processing – Inquiry ○ 2017: Lost Articles, Metals Management, Tools Management ○ 2018 Track Maintenance Inclement Pay Analysis
Strategic Focus: Ridership & Service Reliability (Critical Path #3)
• (2018) Divisional Clerks: Resource Management (Assurance)
• (2017) Asset Management: Subway Rolling Stock (T1 “Hot Cars”) (Assurance)
• (2017) Workforce Planning: Bus Operators (ARMC/HR Education Session)
• (2016) Subway Delays Management (Assurance)
• (2016) Elevating Devices Management (Assurance)
• (2016) F/U Audit: Fuel Card Management (Assurance - Special Request)
• (2016) Capital Project Reviews (Union Station, Leslie Barns & TYSSE)
Strategic Focus: Customer Strategy & Communications (Critical Path #4)
• (2017) Third Party Risk Management: PRESTO Device Monitoring (Assurance)
• (2017) PRESTO (ARMC Education Session)
• (2016) Business Intelligence: KPIs (Advisory – Special Request)

Chronology of Internal Audit Work (2016-2018)

<i>Strategic Focus: Technology & Innovation (Critical Path #5)</i>
<ul style="list-style-type: none"><i>(2018) Cyber-Security Risks & Mitigation Strategies – Operations Group (ARMC Education Session)</i>
<ul style="list-style-type: none"><i>(2017) Cyber-Security Risks & Mitigation Strategies – ITS (ARMC Education Session)</i>
<ul style="list-style-type: none"><i>(2016) IT Disaster Recovery (Assurance)</i>