



# PricewaterhouseCoopers LLP 2016 Management Letter Follow-Up Report

**Date:** February 15, 2018  
**To:** TTC Board  
**From:** Chief Financial Officer

## Summary

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This report outlines a status update on the management letter on internal control recommendations issued by TTC's external auditors, PricewaterhouseCoopers LLP (PwC), in their 2016 year-end audit results report.

## Recommendations

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It is recommended that:

1. Receive the report; and
2. Approve forwarding a copy of the report to the City Clerk for appropriate handling.

## Implementation Points

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The attached report was reviewed at the December 13, 2017 Audit & Risk Management Committee<sup>1</sup>.

This report must be received at the February 15, 2018 TTC Board meeting to ensure timely submission to the City of Toronto Audit Committee so that TTC's management letter update is received within six months after its issuance.

## Financial Summary

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The recommendations in this report have no funding implications.

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<sup>1</sup> See Item 1 at:

[http://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Committee\\_meetings/Audit\\_Risk\\_Management/2017/December\\_13/index.jsp](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2017/December_13/index.jsp)

## **Equity/Accessibility Matters**

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This report and its recommendations have no accessibility or equity issues or impacts.

## **Decision History**

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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 its issuance.

## **Comments**

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The 2016 year-end PwC audit results report, presented at the May 29, 2017 TTC Audit Committee meeting<sup>2</sup>, included a management letter on internal control recommendations and management's initial response to these recommendations.

This attachment includes PwC's internal control recommendation, management's initial response and a status update detailing the action taken thus far to address the recommendation.

The recommendation is currently completed, as detailed in the attachment, and all action taken to date will be subject to review by PwC during the 2017 external financial statement audit.

## **Contact**

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## **Signature**

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Tara Bal (Acting)  
Chief Financial Officer

## **Attachments**

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Attachment 1 - PwC LLP 2016 Management Letter with December 2017 Update

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<sup>2</sup> See Item 1 at:

[http://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Committee\\_meetings/Audit\\_Risk\\_Management/2017/May\\_29/index.jsp](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2017/May_29/index.jsp)

## **PricewaterhouseCoopers LLP 2016 Management Letter with December 2017 Update**

### **1) Supervisor review of cash collection overage/shortage reports is not performed in a sufficient level of detail to detect omissions of information**

#### **Observation**

Supervisor review of cash collection overage/shortage reports is not detailed enough to detect omissions in documentation. In addition to this, it was noted that in one instance, a new employee was not provided with the appropriate level of training to ensure that they understood their requirement to ensure this review was performed by a supervisor.

#### **Implications**

Lack of detailed supervisor review provides opportunity for breakdowns in controls as well as errors being undetected which may have an impact on the financial and operating results.

#### **Recommendation**

Supervisors should perform a detailed review of preparation of cash overage/shortage reports to ensure that all aspects of the control are operating effectively.

#### **Management Response**

Area supervisors will complete detailed reviews of overage/shortage reports and investigations. This will include reviewing anomalies brought forward by staff and ensuring that staff is diligently investigating issues that arise and that all required documentation is provided. In addition, training has been organized for newer staff to ensure that they are properly trained and possess the skillset needed to complete their assigned duties.

#### **December 2017 Update**

Area supervisors continue to review in detail overage/shortage reports including any anomalies brought forward by staff. As part of their review, supervisors ensure that investigations are performed in a timely matter and contain complete and accurate documentation. In addition, training for new staff members are up to date to ensure that they possess the skillset needed to complete their assigned duties.

#### **Status**

Completed

### **2) Segregation of duties within inventory IFS application**

#### **Observation**

Management has designed the inventory business process such that store supervisors are responsible for the end to end activities in the inventory process, including activities to perform good receipts/goods issue, enter/change inventory, post inventory differences, and scrap inventory in IFS application etc. As

such, the role is designed to allow supervisors or any users assigned with this role to perform the above activities.

### **Implications**

Without properly segregating the duties of enter/change inventory and post inventory differences, this allows users to post unauthorized transactions related to missing inventory parts. Also, this allows a single individual to potentially under-report inventory records in IFS and fraudulently removing physical parts from the warehouses.

### **Recommendation**

Management should consider re-designing the role for store supervisors based on their job responsibilities and remove broad access from their IFS roles.

### **Management Response**

M&P Inventory Management has determined that Store Supervisors have IFS access comparative to their area of responsibilities. All inventory related transactions performed in IFS are in the history logs and capture the User ID that performed the transaction. M&P is committed to run reports against the history logs to ensure that there are no fraudulent transactions created. We will ensure the historical log reports are run on a frequent basis and properly reviewed by our management. In addition, M&P conducts a user access audit to remove any inappropriate access for their position to avoid any opportunity for fraud.

### **December 2017 Update**

Senior staff members in Materials Management Controlled Stores and Inventory Planning continue to review IFS historical log report on a weekly basis to ensure no fraudulent transactions were created. All system access requests are reviewed by M&P Materials Management System Administrator to ensure access is appropriate and proper management approval has been obtained. Additionally, IFS user access audit is conducted annually to identify and investigate any employees with unusual access rights to ensure all employees have an appropriate level of access for their position.

### **Status**

Completed