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## Audit Committee

**Date:** September 21, 2020  
**Time:** 9:30 AM  
**Location:** Council Chambers, Civic Centre, 2nd Floor  
300 City Centre Drive, Mississauga, Ontario, L5B 3C1  
And Online Video Conference

### Members

Mayor Bonnie Crombie	
Councillor Stephen Dasko	Ward 1
Councillor Karen Ras	Ward 2
Councillor Ron Starr	Ward 6 (Chair)
Councillor Dipika Damerla	Ward 7

### Participate Virtually and In Person

Advance registration is required to participate in person and/or make comments in the virtual public meeting. To register, please email [allyson.dovidio@mississauga.ca](mailto:allyson.dovidio@mississauga.ca) no later than Friday, September 18, 2020 at 12:00p.m. Any materials you wish to show the Committee during your presentation must be provided as an attachment to the email. Links to cloud services will not be accepted. You will be provided with directions on how to participate from Clerks' staff.

### Participate Via Telephone

Residents without access to the internet, via computer, smartphone or tablet, can participate and/or make comments in the meeting via telephone. To register, please call Allyson D'Ovidio at 905-615-3200 ext. 8587 no later than Friday, September 18, 2020 at 12:00 p.m. You will be provided with directions on how to participate from Clerks' staff. Comments submitted will be considered as public information and entered into public record.

### Contact

Allyson D'Ovidio, Legislative Coordinator, Legislative Services  
905-615-3200 ext. 8587  
[allyson.dovidio@mississauga.ca](mailto:allyson.dovidio@mississauga.ca)

### Find it Online

<http://www.mississauga.ca/portal/cityhall/auditcommittee>  
Meetings of Council streamed live and archived at [Mississauga.ca/videos](http://Mississauga.ca/videos)

1. CALL TO ORDER
2. APPROVAL OF AGENDA
3. DECLARATION OF CONFLICT OF INTEREST
4. MINUTES OF PREVIOUS MEETING
- 4.1 Audit Committee Draft Minutes - May 11, 2020
5. PRESENTATIONS - Nil
6. DEPUTATIONS - Nil
7. PUBLIC QUESTION PERIOD - 15 Minute Limit

Advance registration is required to participate in person and/or to make comments in the virtual public meeting.

Any member of the public interested in speaking to an item listed on the agenda or interested in attending in person must register at [allyson.dovidio@mississauga.ca](mailto:allyson.dovidio@mississauga.ca) by Friday, September 18, 2020 before 12:00 PM.

**Pursuant to Section 42 of the Council Procedure By-law 0139-2013, as amended:**

Audit Committee may grant permission to a member of the public to ask a question of Audit Committee, with the following provisions:

1. The question must pertain to a specific item on the current agenda and the speaker will state which item the question is related to.
2. A person asking a question shall limit any background explanation to two (2) statements, followed by the question.
3. The total speaking time shall be five (5) minutes maximum, per speaker.

8. MATTERS TO BE CONSIDERED

8.1 Final Audit Reports:

1. Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit
2. Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit

8.2 Status of Outstanding Audit Recommendations as of June 30, 2020

9. INFORMATION ITEMS - Nil

10. OTHER BUSINESS

11. DATE OF NEXT MEETING

December 7, 2020

12. ADJOURNMENT

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## Audit Committee

**Date:** May 11, 2020  
**Time:** 9:30 AM  
**Location:** Online Video Conference

Members	Mayor Bonnie Crombie	
	Councillor Stephen Dasko	Ward 1
	Councillor Karen Ras	Ward 2
	Councillor Ron Starr	Ward 6 (Chair)
	Councillor Dipika Damerla	Ward 7

### Staff Present

Janice Baker, City Manager and Chief Administrative Officer  
Paul Mitcham, Commissioner of Community Services  
Gary Kent, Commissioner of Corporate Services and Chief Financial Officer  
Jeff Jackson, Director, Finance and Treasurer  
Wesley Anderson, Manager, Financial and Treasury Services  
Luis Souza, Director, Internal Audit  
Barb Webster, Senior Auditor, Internal Audit  
Kevin Travers, Partner, KPMG  
Diana Rusnov, Director, Legislative Services and City Clerk  
Sacha Smith, Manager, Legislative Services and Deputy Clerk  
Dayna Obaseki, Legislative Coordinator, Legislative Services

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**1. CALL TO ORDER**

9:32AM

**2. APPROVAL OF AGENDA**

Approved (Councillor Ras)

**3. DECLARATION OF CONFLICT OF INTEREST****4. MINUTES OF PREVIOUS MEETING****4.1 Audit Committee Draft Minutes - December 2, 2019**

Approved (Councillor Dasko)

**5. DEPUTATIONS**

Gary Kent, Commissioner of Corporate Services and Chief Financial Officer provided introductory remarks. He noted that on April 29, 2020 at City's Council meeting the 2019 Financial Performance and Data Analysis Report was presented in the format similar to the budget book that is more digestible to the public. The 2019 Financial Statements report contains the same information, however presented in a different format that is in compliance with the legislation and policies that outline the accounting practices.

**5.1 Wesley Anderson, Manager, Financial & Treasury Services to present on the 2019 Financial Statements****Item 7.1**

Mr. Anderson provided an overview on the 2019 Financial Statements highlighting the financial statements versus the budget book, assets, liabilities, accumulated surplus, revenues, expenses and the Living Arts Centre. The City's investments in relation to Enersource Corporation experienced a slight reduction due to the Alectra Utilities amalgamating with Guelph Hydroelectric Systems. In 2019, The City of Mississauga assumed effective control of the Living Arts Centre. The City expanded use of SAP Concur for an increase in transparency, automated processing, a reduction in manual entry and to speed up year-end reporting. In consultation with KPMG, Finance revised the account treatment of deferred revenues to include unspent capital funds from obligatory reserve funds. Mr. Anderson further outlined the potential impacts of COVID-19 on the City's Financials and notes that the ultimate impact is unknown.

Councillor Ras inquired about the revised accounting treatment of obligatory development charges and the impact of Bill 108. Mr. Anderson responded by noting that historically the balance and unspent development charges were classified as liabilities, while other accounts were calculated as surplus. Mr. Anderson further noted that with revised calculation all accounts with unspent balances are classified as liabilities and that this revision has been recast in the 2018 and 2019 finances to reflect the update. Gary Kent, Commissioner of Corporate Services and Chief Financial Officer and Jeff

Jackson, Director of Finance and Treasurer responded by noting the impacts of Bill 108 are still unknown and will continue to be monitored.

Item 7.1 was brought forward and voted on.

**RECOMMENDATION AC-0001-2020**

Moved By Councillor Ras

That the deputation by Wesley Anderson, Manager, Finance and Treasury Services regarding the 2019 Financial Statements be received.

Received

**6. PUBLIC QUESTION PERIOD - 15 Minute Limit**

The public may pre-register to speak at dayna.obaseki@mississauga.ca by Friday, May 8, 2020 before 12:00 PM.

dayna.obaseki@mississauga.ca

The public may pre-register to speak at dayna.obaseki@mississauga.ca by Friday, May 8, 2020 before 12:00 PM.

No members of the public pre-registered to speak.

**7. MATTERS CONSIDERED**

**7.1 2019 Financial Statements**

Item 7.1 was brought forward and voted upon during the discussion of Item 5.1.

**RECOMMENDATION AC-0002-2020**

Moved By Councillor Ras

That the 2019 Audited Financial Statements for City of Mississauga (consolidated), City of Mississauga Public Library Board, City of Mississauga Trust Funds, Clarkson Business Improvement Area, Port Credit Business Improvement Area, Streetsville Business Improvement Area, Malton Business Improvement Area, and Enersource Corporation be received for information.

YES (5): Mayor Crombie, Councillor Dasko, Councillor Ras, Councillor R. Starr, and Councillor Damerla

Carried (5 to 0)

**7.2 2019 External Audit Findings Report**

Kevin Travers, Partner, KPMG LLP provided a brief overview on the highlights outlined in Appendix 1 – 2019 Audit Findings Report. Mr. Travers noted that presumed risks, the areas of focus, the impact of the utilities amalgamation, the acquisition of the Living Arts

Centre, employee future benefits, contingencies and upcoming changes to the Public Sector Accounting Standards.

RECOMMENDATION AC-0003-2020

Moved By Councillor Dasko

That the 2019 External Audit Findings Report, dated April 23rd, 2020 from the Commissioner of Corporate Services and Chief Financial Officer, which includes the Audit Findings Report from KPMG for the fiscal year 2019 for the City of Mississauga (City), be received for information.

YES (5): Mayor Crombie, Councillor Dasko, Councillor Ras, Councillor R. Starr, and Councillor Damerla

Carried (5 to 0)

7.3 Contract Amendment for Statutory Audit Services Procurement

Gary Kent, Commissioner of Corporate Services and Chief Financial Officer spoke to the item by noting that KPMG has been the City's external auditor since 1994, however in 2015 the City of Mississauga began a competitive procurement process. The contract was awarded to KPMG for five (5) years with an additional five (5) years as an option at the City's sole discretion. Mr. Kent also further noted that the Municipal Accommodation Tax provided the ability to audit the hotel/accommodation industry under the by-law.

Councillor Starr inquired if the Municipal Accommodation Tax Audit is recoverable. Mr. Kent responded by noting that a portion of the tax collection is dedicated to the new Mississauga Tourism Board after the administrative costs including the audit have been deducted.

RECOMMENDATION AC-0004-2020

Moved By Mayor Crombie

1. That the option to extend the existing contract with KPMG LLP for Statutory Audit Services, File Ref: FA.49.480-15, for the audit years 2020-2024 in accordance with the City's Purchasing By-law 374-06, as amended, per the report entitled "Contract Amendment for Statutory Audit Services Procurement FA.49.480-15" dated April 13, 2020 from the Commissioner of Corporate Services and Chief Financial Officer be exercised.
2. That the Purchasing Agent or designate be authorized to execute an amendment to the existing contract with KPMG LLP to increase the total contract value to \$1,552,500 and extend the contract end date to November 1, 2025, in accordance with section 18(2)(d)(i) of the City's Purchasing By-law 374-06, as amended.
3. That KPMG LLP be appointed the City's external auditors for the audit years 2020 to 2024, in accordance with the Audit Committee Terms of Reference.

4. That the amendment referred to in recommendation 2 include audits of accommodation providers as are required to enforce the Municipal Accommodation Tax (MAT) By-law.

YES (5): Mayor Crombie, Councillor Dasko, Councillor Ras, Councillor R. Starr, and Councillor Damerla

Carried (5 to 0)

#### 7.4 Status of Outstanding Audit Recommendations as of December 31, 2019

No discussion took place.

RECOMMENDATION AC-0005-2020

Moved By Councillor Damerla

That the report dated February 7, 2020 from the City Manager & Chief Administrative Officer regarding the status of outstanding audit recommendations as of December 31, 2019 be received for information.

YES (5): Mayor Crombie, Councillor Dasko, Councillor Ras, Councillor R. Starr, and Councillor Damerla

Carried (5 to 0)

#### 7.5 2019 – 2020 Internal Audit Work Plan Report

Councillor Ras inquired if the Work Plan would be amended due to the COVID-19 Pandemic. Luis Souza, Director of Internal Audit responded by noting that the staff has already started altering the plan by reducing the workload to allow the capacity to fulfill other requests. Also staff is currently planning and preparing a strategy for the leadership team on the resumption of activities as well as analyzing what procedures have been put into place during the emergency period, whether those process need to become permanent and/or require review and any elevated risks.

RECOMMENDATION AC-0006-2020

Moved By Councillor Ras

That the report dated April 20, 2020 from the Director, Internal Audit with respect to the 2019-2020 Internal Audit Work Plan be approved.

YES (5): Mayor Crombie, Councillor Dasko, Councillor Ras, Councillor R. Starr, and Councillor Damerla

Carried (5 to 0)

#### 8. ENQUIRIES - Nil.

#### 9. CLOSED SESSION - Nil.



Janice Baker, City Manager and Chief Administrative Officer provided brief comments on her time at the City of Mississauga as she will be embarking on retirement and applauded the Internal Audit Team.

RECOMMENDATION

**10. ADJOURNMENT**

10:18AM (Councillor Dasko)

DRAFT

# City of Mississauga Corporate Report



Date: September 8, 2020

To: Chair and Members of Audit Committee

From: Luis H. Souza, CPA, CMA, CIA  
Director, Internal Audit

Originator's files:

Meeting date:  
September 21, 2020

## Subject

### Final Audit Reports:

1. **Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit**
2. **Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit**

## Recommendation

That the report dated September 8, 2020 from the Director, Internal Audit with respect to final audit reports:

1. Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit; and,
2. Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit

be received for information.

## Background

In accordance with the Terms of Reference for the Audit Committee (By-law 0069–2015), the Committee is responsible for, “reviewing reports from the Director of Internal Audit identifying audit issues and the steps to resolve them [and] reviewing the adequacy of the management responses to audit concerns, having regard to the risks and the costs involved.”

## Comments

Internal Audit has completed finalization of the following two audits:

1. Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit; and,
2. Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit

The two audit reports are hereby submitted to the Audit Committee for consideration.

## Financial Impact

There are no financial impacts resulting from the Recommendation in this report.

## Conclusion

The final report for Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit; and Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit are now complete and are submitted for consideration by the Audit Committee.

## Attachments

- Appendix
1. Transportation & Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit
  2. Community Services Department, Fire & Emergency Services Division, Capital Assets Section – Fire Fleet Acquisition Audit



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Luis H. Souza, CPA, CMA, CIA  
Director, Internal Audit

Prepared by: Karen Hobbs, Administrative Coordinator

# City of Mississauga **Internal Audit Report**

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TRANSPORTATION AND WORKS DEPARTMENT  
MIWAY TRANSIT DIVISION  
TRANSIT REVENUE SECTION  
PRESTO CARD REVENUE AUDIT

September 8, 2020

City Manager's Department  
Internal Audit Division

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Report on Transportation and Works Department, MiWay Transit Division, Transit Revenue Section – Presto Card Revenue Audit

Appendix A – Summary of Recommendations

**TRANSPORTATION AND WORKS DEPARTMENT  
MIWAY TRANSIT DIVISION  
TRANSIT REVENUE SECTION  
PRESTO CARD REVENUE AUDIT**

Distribution List

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Transportation & Works Department

- Director, Transit
- Manager, Service Development

Corporate Services Department

- Director, Finance & Treasurer
- Manager, Financial and Treasury Services
- Manager, Business Services & Process Solutions

KPMG LLP, Chartered Accountants, External Auditor

**Transportation and Works Department  
MiWay Transit Division  
Transit Revenue Section  
Presto Card Revenue Audit**

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## **BACKGROUND**

Transit fares are a critical user fee revenue source for the City, generating \$88.8M in 2019 (\$86.5M in 2018), with Presto revenues representing \$69.5M in 2019 (\$60.8M in 2018) or 78 percent of total transit revenues. The Presto program automates and facilitates the management of transit fare collections for a number of transit agencies including MiWay.

The Presto program is an operating division of Metrolinx, a regional transportation authority for the Greater Toronto and Hamilton Area (GTHA). Metrolinx was created in 2006 as an agency of the Province of Ontario with the objective of leading the transformation of transportation in the GTHA into an integrated multi-model network. The City of Mississauga's MiWay Transit Division within the Transportation and Works Department implemented, and subsequently administers and manages the program under the terms of the agreement with Metrolinx.

Presto was introduced to replace a number of the Province's aging transit fare collection systems. The Presto system aims to provide a user-friendly fare payment system for all public transit customers and to minimize cash transactions and cash handling. The benefits of the program include efficiencies that support an increase in ridership and better customer service such as faster boarding times, easier transfers, cost savings and elimination of paper tickets.

The program was initiated as a pilot in 2011. The City's Presto card program has grown in terms of program usage adoption and revenues since then, and is entering its second agreement term with Metrolinx. On January 17, 2018, the City signed a new 10-year agreement, along with other transit agencies (York, Burlington, Brampton, Oakville and Durham), which will expire November 27, 2027 with an option to renew.

Presto card revenue was selected for an audit to ensure the program is running efficiently and effectively. Due to the amount of revenue and importance to the City's revenue stream, it is critical to have adequate controls and processes to ensure revenues are properly recorded, monitored and safeguarded. This audit focused on those controls.

The Presto program, including 500 MiWay buses, is supported by the following areas: Transit Revenue, Transit Data Systems, Transit Data Analytics, Transit Enforcement, Bus Operations, Transit Training, and 11 community centres.

## **SCOPE**

The audit examined Presto card revenue generated in 2019, and included transactions from 2018 or earlier as required.

The audit focused on the service areas which support the Presto card revenue program. The

audit plan considered various legislative documents, agreements and contracts, Presto fare card administration, Presto equipment management, Presto ridership rates, Presto revenue accounting, Presto financial and operational reporting, transit fare control processes to support Presto fare evasion management, and facility processes selling and loading Presto cards.

The audit excluded assessment of Presto's back-end processes and financial systems which are covered within Presto's Canadian Standard on Assurance Engagements Report (CSAE3416 Type II SOC I).

The scope also excluded any work conducted by MiWay in its operations that are not related to management and administration of Presto cards, sales and revenues.

## **OBJECTIVES**

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The purpose of the audit was to ensure that:

- A) Applicable legislation and corporate and departmental policies and procedures are adhered to with respect to the revenue administration;
- B) Accounting for revenues is timely and accurate;
- C) Financial and operational reporting of revenues and ridership are timely and accurate;
- D) There are adequate safeguards and controls over equipment and fare cards;
- E) There are adequate control processes to assist with Presto fare evasion management.

## **SUMMARY OF OBSERVATIONS**

This was the first comprehensive audit for the Presto card revenue program since implementation in 2011.

Two Transit-related audits were completed in 2012: Transit Tickets and Passes; and Transit Coin Room.

During the course of this audit, Internal Audit summarized the observations relating to the five (5) objectives listed above into thirteen (13) recommendations for improvement. Risks and controls were considered under each of the objectives, and the recommendations provided below range from high to medium priority. Internal Audit also identified a few additional process improvement recommendations which were provided to Transit in an internal communication. These process improvement recommendations will also help strengthen and benefit the program.

A detailed list of all observations for each recommendation, including opportunities for improvement, was provided directly to management of the areas involved.



The subsections below describe the main goals of our recommendations and a summary of the observations, while Appendix A outlines the detailed recommendations and the action plans proposed by management.

**Transit Division and Corporate Finance work together to review and improve financial oversight and processes over transit revenue and accounting (Objectives B and C).**

A number of accounting/revenue related observations were identified, ranging from opportunities for improvement to more significant inaccuracies. The major observations include:

- Understatement in the accounting for revenues of \$411K. Presto cash settlements/receipts for Presto reported transactions were properly received. However, the accounting for revenues was understated when compared to YTD Presto Revenue. This variance was primarily due to no reconciliation with the YTD Presto report and unreconciled monthly variances of \$465K charged to a clearing account.
- Unreconciled balance of \$33K in GL 201506-Presto Clearing account.
- Recovery billing errors to the Region of Peel for 50 percent of the Affordable Transit Program (ATP) - 2019 (\$34K under-billed) and 2018 (\$57K over-billed). The errors were due to no formal reconciliation with actual ATP sales.
- Revenues and expenses were charged to incorrect elements (e.g. Presto fare cards charged to rental equipment) and revenues charged to expense elements (e.g. Region of Peel ATP recoveries, Toronto Transit Commission (TTC) advertising revenue).

The root cause for these errors is that accounting processes, originally set up at the start of the program by Transit Revenue staff, have not been recently updated. As a result, small changes accumulated throughout the years and resulted in a complex process that has not been thoroughly analyzed or properly documented. The Transit Director also advised that this situation results from the fact that Transit does not currently have expert accounting support, either internally or through Corporate Finance.

**Review, update, and regularly monitor all Presto-related agreements and ensure any deficiencies are investigated and addressed immediately (Objectives A, B, C, D).**

There are a number of partnerships associated with the Presto card program: Metrolinx (main agreement), TTC (Route 52-Lawrence West), Region of Peel (50% of Affordable Transit Program [ATP]), and GO Transit (co-fare program through Metrolinx). The review highlighted that some of the requirements are not routinely monitored, with the most relevant items relating to:

- Various agreements for performance standards not being actively monitored on a regular basis, such as insurance requirements for both parties, Presto fare card shipping timelines, banking settlement terms, and annual Payment Card Industry (PCI) credit card certification.
- The TTC agreement, last executed in July 2009, does not reflect the change from manual to electronic fare recognition once vehicles enter the City of Mississauga borders, and the inclusion of transit advertising revenues.
- No formal agreement with Region of Peel on the Affordable Transit Program (ATP) administration and recoveries. (A Corporate Report was approved by Mississauga City Council (September 2017) to initiate the program with the Region of Peel.)

- No identified agreement with GO Transit regarding their co-fare subsidy funding to the City.

The observations highlight some concern regarding impacts on performance standards which may affect revenues and quality of service.

**Expand operational analytics, monitoring and reporting to help guide financial and operational strategies (Objectives A, B, C, E).**

The Transit Data Management Unit analyzes operations and generates reports on revenues and ridership. While reports focused on ridership and total revenues are routinely prepared, other reports that could better support management's analysis and decisions were not available.

Existing reports do not present a comprehensive analysis identifying sources of losses to enable measures related to loss control. The Transit Director advised that Transit often conducts ad hoc analyses when new programs are implemented, or when specific trends are identified. Ideally, such reports should be part of a periodic review of the overall performance of the division.

Additionally, reports do not include analysis of potential situations of data errors or non-compliance. For instance, Internal Audit noted that during 2019, 90 fare payments were incorrectly recorded as "children," which Transit later explained was due to data errors from Metrolinx.

The lack of monitoring situations as above could impair the quality of reporting and reduce management's ability to detect trends, deviations and emerging issues in a timely manner.

**Ensure all invoices from Metrolinx and TTC are provided to Accounts Payable and processed in a timely manner (Objectives A and D).**

The existing contracts with Metrolinx and the Toronto Transit Commission (TTC) include, among others, revenue administration, Presto equipment repairs, Presto fare card purchases, and TTC services provided to the City. There was concern regarding the administration of invoices, mainly regarding the following:

- Metrolinx and TTC invoices were being sent directly to Transit and at times not forwarded to Accounts Payable for processing, per best practices. Due to a credit balance on the TTC account/statement, invoices from mid-year 2018 to end of 2019 were retained in Transit and not sent to Accounts Payable for processing. This resulted in \$1.65M in unrecorded expenses and \$1.56M in unrecorded revenues in 2019.
- TTC fare revenues and operational expenses for 2018 and 2019 were applied on the same invoice; therefore, TTC fare revenues were netted against expenses understating both revenues and expenses for those years. The Director, Transit advised that the TTC billing to the City has been on a net basis (revenues and expenses) since agreement execution in 2009.

Transit corrected the processing of invoices in early 2020 and Finance prepared an accrual to correct the 2019 accounting records and financial reporting.

**Enhance Standard Operating Procedures (SOP's) for daily processing and reconciliation activities to support training, backup and consistency (Objective E).**

Eleven selected community centres, the City Centre Transit Terminal, and various Shoppers Drug Mart locations across Mississauga provide customer service and support for Presto card credit loads, Presto monthly passes, and new Presto card sales. Upon inspection of four of these centres and the transit terminals, our main observations were:

- Lack of a comprehensive set of standard operating procedures (SOP's) for critical tasks and processes which assist with training and service continuity. Existing SOP's were limited in content and detail and not widely distributed.
- Inconsistent validation of proof of age at concession locations. Proof of age is only enforced with post-secondary students and varies across the locations.

Not having an updated and thorough set of standard operating procedures in place could impact service continuity or result in inadequate training, inconsistency in processes, and increased probability of error.

**Formalize a City contingency plan for Presto Operations, reviewed annually and signed off by Transit Management, as per the Metrolinx Agreement (Objective A).**

The current agreement between the City and Metrolinx requires both parties to develop and maintain a contingency plan to ensure the continuity of services and processes relating to Presto. Contingency plans help ensure the continuity of service and data tracking when systems go down or when there is an emergency event that impacts operations.

Internal Audit noted that some contingency instructions do exist on the City side, guiding the responses for when the Presto system was inoperable or impacted (i.e. what would they do if the Presto system was not working, how would they record lost revenues, etc.); however, these instructions have not been included as part of a formal contingency plan, which would ensure a thorough analysis of potential situations, periodic testing, and training for all involved employees.

Recent emergency events (climate disasters, accidents, pandemics, etc.) have placed stronger emphasis on establishing contingency plans for service continuity and support during an event. While the City's responsibility related to Presto is limited, the City is the customer-facing node of this network and therefore might be impacted by any issue related to Presto from a customer service and revenues perspective.

**Standardize processes and controls over fare cards and operational cards including administration, inventory, security, distribution, and reconciliation (Objective D).**

The Presto system operation is based on fare cards (the Presto card used by riders to load credits and pay for rides) and operational cards (used by employees for administrative tasks in the system). Fare cards are purchased and managed by the Transit Revenue section and distributed through 11 community centres, the City Centre Transit Terminal, and Transit Marketing. Promotional cards are at times pre-loaded with credit and distributed for free to encourage and promote ridership within the City. Internal Audit identified a few observations to improve operations and management of these cards, which include:

- Both fare cards and operational cards were stored insecurely at all locations.
- Transit Marketing through Transit Revenue pre-loads promotional cards (usually, but not always, small amounts - approximately 1,781 cards valuing \$5,500 in 2019). The MiWay Ambassador program includes cards with pre-paid amounts up to \$999. However, a procedure on the cost and distribution of those cards has not been implemented.
- There were no inventory log records (i.e. serial numbers) for various types of cards held at the different facilities, except Transit Revenue.
- Some serial numbers were missing on log sheets – these numbers are useful for tracking and audit purposes.

In addition, the physical and administrative processes around those cards (e.g. inventory control, security of cards) were not consistent across the different facilities.

### **Correct Harmonized Sales Tax (HST) treatment on the sale of fare cards (Objective A).**

Canada Revenue Agency (CRA) guidelines state that charges related to municipal transit services, including the sale of fare cards like the Presto card, are exempt for the purposes of the Harmonized Sales Tax (HST). HST had been applied in error within the CLASS system on all new card sales since 2014. HST of 69 cents was backed out of each \$6 new Presto card sale and remitted to the CRA, resulting in a loss to the City of approximately \$115K for the period 2016 to present (CRA 4-year limitation period).

Internal Audit also noted that the presentation and wording regarding HST application within the Fees and Charges By-law may be subject to interpretation or application errors. Transit-related fees are included in the annual Fees and Charges By-law at face value, without providing specific guidance with regard to the treatment of HST. In a separate section, the by-law states that the fees and charges may be subject to HST, but falls short on either providing specific instructions or establishing the accountability for the HST treatment determination.

### **Enhance controls around Presto equipment inventory and maintenance (Objective D).**

The Transit Equipment Maintenance Section is responsible, among other items, for managing equipment inventories and repairs, including Presto equipment for both buses and facilities. Properly functioning Presto equipment is critical to the recording of Presto revenues. Internal Audit identified a few observations to improve operations. The major observations include:

- An outdated, manual inventory tracking system that was implemented 10 to 15 years ago.
- Lack of standard operating procedures regarding the administration and maintenance of the equipment inventory log, storage and disposal of spare and obsolete inventory, and administration of Vehicle Complaint Report (VCR) forms.
- No formal inventory counts on Presto equipment and buses against the inventory databases.
- Broken, obsolete, or unusable equipment still in inventory.
- Excel inventory log does not identify the age of equipment for replacement.
- Monitoring of trends of Presto equipment repairs is not performed on a regular basis.

Note that Internal Audit did not review the inventory process and system as a whole; the audit was focused on controls around Presto equipment.

Transit management advised that, as a result of the new operating agreement with Metrolinx, the maintenance and control of Presto equipment will move to Metrolinx during 2020. The Division is currently refreshing the existing equipment, and upon completion of this process, the equipment will no longer be owned or maintained by the City.

## CONCLUSION

Based on our observations, Internal Audit opinion is that the control environment around the administration of Presto cards, revenue, and equipment is adequate, but presents some opportunities for improvement and control enhancement that will correct a few accounting/invoice issues, enhance analytics and improve governance of the process.

A total of 13 recommendations resulted from this audit. The table below summarizes the recommendations by classification and priority.

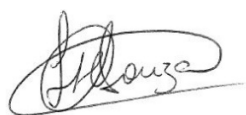
Classification	High	Medium	Total
Efficiency and Effectiveness	0	1	1
Compliance with and Clarification of Corporate Requirements	0	5	5
Operational Control and Financial Reporting	2	1	3
Safeguarding of Assets and Information	0	4	4
<b>Total</b>	<b>2</b>	<b>11</b>	<b>13</b>

Details of the audit recommendations and management comments can be found in Appendix A.

Management has agreed to all the recommendations.

- One (1) has been completed.
- Two (2) are targeted for completion by end of December 2020.
- Three (3) are targeted for completion by end of March 2021.
- Four (4) are targeted for completion by end of June 2021.
- Three (3) are targeted for completion by end of December 2021.

Internal Audit would like to thank the Director, Transit and his team, along with Community Services and Finance management for their time, support, and assistance during this audit.




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Luis H. Souza, CPA, CMA, CIA  
Director, Internal Audit

Auditor: Mark Beauparlant  
Senior Internal Auditor

Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That Transit Division and Corporate Finance work together to review, update and improve financial oversight and document the Transit Presto revenue accounting processes.	H	<p>Transit and Corporate Finance will review the revenue accounting processes, adjust and correct the observations raised by Internal Audit, and develop standard operating procedures that will assist in reconciling and reviewing Presto revenues on a regular basis.</p> <p>To be completed by June 30, 2021</p>	Operational Control and Financial Reporting
2	That Transit Operations review, update, and regularly monitor all Presto-related agreements and ensure any deficiencies are investigated and discussed with Metrolinx as soon as identified.	M	<p>MiWay will review the Presto Agreement and establish a process to ensure insurance certificates are current and to review Metrolinx's compliance with the contract.</p> <p>To be completed by June 30, 2021</p>	Compliance with and Clarification of Corporate Requirements
3	That Transit Operations initiate discussions to establish formal agreements with the Region of Peel (ATP Program) and GO Transit (co-fare program).	M	<p>Transit will initiate discussions for a review of the TTC contract, implementation of an ATP agreement with Peel Region and discuss a co-fare agreement with Metrolinx. Action is dependent on the counterparties agreeing to proceed.</p> <p>To be completed by December 31, 2021</p>	Compliance with and Clarification of Corporate Requirements

4	That the Transit Data Management Unit within the Transit Service Development Section expand operational analytics, monitoring and reporting in the following areas: fees and rates, agreement standards, and loss control.	M	Transit agrees with the recommendation.  To be completed by December 31, 2021	Operational Control and Financial Reporting
5	That Transit Operations work with Accounts Payable and the partner agencies on the proper handling and treatment of invoices and credit notes. Consideration should be given to the creation of an internal checklist for processed invoices and goods receipts to minimize the risk of duplicate payment submissions.	H	Completed.	Operational Control and Financial Reporting
6	That Transit initiate a review of standard operating procedures at community centres, Transit Terminal, Transit Revenue, and Transit Marketing, and ensure all critical tasks regarding fare card management, proof of age, and sales reporting to support training, backup, and consistency are described with sufficient detail.	M	Transit agrees with the recommendation and will consult with Recreation in the development of Presto card sales procedures in community centres.  To be completed by June 30, 2021	Efficiency and Effectiveness
7	That Transit Operations develop a formal contingency plan related to Presto operations, including detailed scenario analysis, periodic testing and training. Transit should also periodically seek assurances from Metrolinx on all roles and responsibilities during an event.	M	Transit agrees with the recommendation. This will be included in the MiWay Business Continuity Plan.  To be completed by December 31, 2021	Safeguarding of Assets and Information
8	That Transit, together with the Recreation Division, standardize processes and controls over fare cards and operational cards, including administration, inventory, security, distribution, and reconciliation. Specifically, signatures must be required from the recipients of high-value promotional cards.  In particular, the inventory log should be two-fold:  a) When staff receive the cards, they should validate that they receive the right amount (e.g. 50 cards per batch), the correct serial numbers (e.g. card 1 serial	M	Transit agrees with the recommendation and will consult with Recreation in the development of the process to manage operational and fare cards. Signature will be required for all promotional cards over \$20 and the inventory process will include that logs are recommended.  To be completed by June 30, 2021	Safeguarding of Assets and Information

	<p>#, card 50 serial #), who received the cards, who delivered the cards, and delivery date.</p> <p>b) When cards are sold, the inventory log should identify which card was sold, (e.g. by serial #), date it was sold, and who sold it.</p> <p>The inventory sold at facilities must be reconciled during the end-of-day close process and counted on a periodic basis.</p>			
9	That the Transit Revenue Section, in conjunction with Corporate Finance, establish a procedure to determine and implement the proper HST application, and ensure HST is correctly applied within billing/sales systems on an annual basis and when new fees are introduced.	M	<p>A standard operating procedure will be developed.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
10	That the Transit Revenue Section work with Corporate Finance/Accounts Payable (AP) on the recovery of HST errors, including the eligible period for recovery.	M	<p>Corporate Finance agrees to the recommendation.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
11	That Accounts Payable develop documentation available to all City departments on how to determine HST applicability for fees and charges, and that this be reviewed annually as part of the fees and charges update.	M	<p>A standard operating procedure will be developed.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
12	That Transit Maintenance continue to implement the equipment refresh and transfer the responsibilities to Metrolinx. In parallel, that Transit review the existing inventory to identify equipment that can be disposed of or returned to Metrolinx.	M	<p>The new operating agreement moves us to a fully managed service upon device refresh and MiWay is no longer responsible for Presto device maintenance.</p> <p>Device refresh commences July 22 and will be complete by year end. Additional time will be required because the Presto Maintenance System will be in an immature state. Existing equipment and</p>	Safeguarding of Assets and Information



			<p>parts will be sent for disposal. Metrolinx will own the spare inventory/parts so device tracking will have to be conducted on their platform.</p> <p>To be completed by September 30, 2021</p>	
13	<p>That Transit review its inventory log system in Excel, and consider an upgrade to management software better suited to its needs.</p> <p>Additionally, that Standard Operating Procedures (SOP's) be developed for the administration and maintenance of the equipment inventory log, storage and disposal of spare and obsolete inventory, and administration of VCR forms, and that the SOP's are approved by management annually.</p>	M	<p>Transit has recently implemented Enterprise Asset Management software (May 2020) for its rolling stock asset management. Additional time will be required to work with the vendor on system capability. It is our intention to bring all on-board equipment into this program for asset management purposes.</p> <p>To be completed by December 31, 2021</p>	Safeguarding of Assets and Information

# City of Mississauga Internal Audit Report

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COMMUNITY SERVICES DEPARTMENT  
FIRE & EMERGENCY SERVICES DIVISION  
CAPITAL ASSETS SECTION  
FIRE FLEET ACQUISITION AUDIT

September 8, 2020

City Manager's Department  
Internal Audit Division

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FIRE & EMERGENCY SERVICES DIVISION  
CAPITAL ASSETS SECTION  
FIRE FLEET ACQUISITION AUDIT**

Distribution List

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- Assistant Chief of Professional Development & Accreditation

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- Manager, Financial and Treasury Services

KPMG LLP, Chartered Accountants, External Auditor

**Community Services Department  
Fire & Emergency Services Division  
Capital Assets Section  
Fire Fleet Acquisition Audit**

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## **BACKGROUND**

Mississauga Fire and Emergency Services' (MFES) vision is, "to be a global leader in Fire Service and Life Safety excellence." With 21 fire stations and one training complex across the city that are operational throughout the year, it is crucial to have functional firefighting assets in service to support staff during emergencies. To assist with that vision, the Capital Assets Section, which operates within the Fire & Emergency Services Division of the Community Services Department, is primarily responsible for acquisition, maintenance, and disposal of the assets.

The assets managed by the section include all fire apparatus – a customized firefighting vehicle – (e.g. pumper, squad, aerial or specialty vehicles), small vehicles (e.g. responds to incidents or support vehicles), equipment/supplies (e.g. fire hoses, cleaning supplies, etc.), and clothing (e.g. boots, firefighting clothing, helmets, etc.).

The Capital Assets Section is responsible for the procurement of fire apparatus. Staff maintain a registry of the fire apparatus, inventory of work performed and warranty claims. The Capital Assets Section also identifies which fire apparatus are due for disposal and follows Corporate Policy and Procedure 03-06-10, Disposal of Surplus City Assets.

The Capital Assets Section is comprised of three work units - Stores, Fleet, and Building Maintenance. There are fifteen (15) full-time staff, reporting to the Assistant Chief of Capital Assets. All staff within this section are unionized, with the exception of the Assistant Chief.

In April 2017 Council approved the 2017 budget for the replacement of the existing aging vehicles, in the amount of \$22.41 million CAD over five years. MFES worked with Materiel Management, in conjunction with Legal Services, to initiate a competitive high-value acquisition Request for Proposal (RFP) for the supply and delivery of the new fire apparatus. An MFES project team was established to provide all the specifications and uses for the fire apparatus.

The contract was awarded to Commercial Truck Equipment Co. (the vendor), a representative of Pierce Manufacturing Inc. (the manufacturer) in January 2018, for approximately \$20.6 million USD spanning five (5) years. The acquisition would allow for the purchase of 24 new fire apparatus.

An audit on the MFES Building and Fleet Maintenance was completed in 2017, focusing on building and fleet maintenance business processes, 2016 MFES purchases, and reviewing a sample of service contracts administered by the MFES Facilities Maintenance and Mechanical Sections. As defined in the Internal Audit Workplan approved by the Audit Committee, this audit was focused on the procurement, supply, delivery, warranties and disposal of the fire apparatus.

## **SCOPE**

The audit examined the adequacy of controls and compliance with the procurement process, acquisition, contract/agreement, inspection/acceptance, payment, warranty, and disposal of the fire apparatus.

The audit scope included a procurement conducted in 2017 and disposals in 2018 and 2019. Maintenance of the new fire apparatus and the acquisition of thirty-four (34) small support vehicles were excluded from the scope.

## **OBJECTIVES**

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The purpose of the audit was to ensure that:

- A) Procurement and acquisition of fire apparatus is conducted, approved, documented and in compliance with the City's Purchasing By-law, applicable Corporate Policies and Procedures and/or good business practices;
- B) Inspection and acceptance criteria for the fire apparatus is documented, included in the bid tender and in compliance with the contract/agreement;
- C) Payments are properly approved, calculated and processed, adequately supported and made in accordance with the terms and conditions of applicable contracts/agreements;
- D) Change order(s) are documented, justified and do not exceed set thresholds;
- E) Warranty claims are processed and are accurate, timely and correctly recorded;
- F) There are adequate controls over disposals of fire apparatus and they are in compliance with the City's Purchasing By-law, applicable Corporate Policies and Procedures and/or good business practices; and
- G) Departmental procedures are clearly and comprehensively documented and comply with applicable City By-laws, Corporate Policies and Procedures and departmental requirements.

## **SUMMARY OF OBSERVATIONS**

Overall, the RFP was conducted in accordance with the requirements of the Purchasing By-law, however, with certain errors, which can be attributed to the expedited manner in which the process was conducted. MFES management advised that the process was expedited due to the need to mitigate the risk of existing fire apparatus due to their age and state, which could potentially raise concern over residents' and employees' safety. Internal Audit noted that at times formal documentation was incomplete or contained errors, in certain steps of the bid evaluation process and after the contract was awarded. Examples include the absence of

detailed analysis or rationale for the bid assessments, discrepancy between the approved budget and Procurement Authorization Request (PAR) amount authorized, inconsistent warranty start dates, change orders, etc. (Objectives A and D).

Regarding the payment process, however, there were significant concerns over the payments for 16 vehicles (total cost of \$15.6 million USD), which were executed over one year in advance of their expected delivery, in exchange for a 3% discount, without a formal risk and financial analysis and with discrepancies in relation to the established processes (for changing payment terms and for recognizing receipt of the goods). For the most part, the risk of non-performance did not materialize, as 14 of the 16 vehicles were delivered (as of August 2020) and only 2 are outstanding; however, it would be advisable that the assumption of such level of risk involve in-depth formal analysis by business areas (e.g. Finance, Legal, etc.) (Objectives A and C).

Additionally, the lack of specific guidance for certain steps and other control weaknesses in the corporate processes resulted in less than optimal decisions regarding change orders, budget control and terms of payments. Besides the aforementioned issues with formal documentation, the procurement process did not present other major issues; however, there was concern over the management of the contract and monitoring of the budget (Objective G).

While the inspection and acceptance criteria for the fire apparatus was documented in the RFP and the inspection process seemed to be thoroughly conducted by the technical team, concerns were noted regarding the formal acceptance process of the fire apparatus (Objective B).

At the time of the audit, the newly acquired fire apparatus was under warranty, and warranty claims were processed at no additional cost. The former Assistant Chief of Capital Assets stated due to system limitations warranties were not being entered into the system. The risk of not electronically recording the warranties in the system is that they also cannot be tracked or reported (Objective E).

Although disposition of the fire apparatus was in accordance with the Purchasing By-law and applicable Corporate Policies and Procedures, control weaknesses were noted in the overall disposal process (Objective F).

The subsections below provide additional comments on our observations and describe our main recommendations. Appendix A outlines the detailed recommendations, together with the action plans proposed by management.

**Require higher authority level to approve significant advance payments and require comprehensive analysis of financial and operational risks (Objectives A and C)**

For 2018 and 2019, MFES issued purchase orders for 19 fire apparatus with a total cost of \$15.6 million USD (excluding taxes and additional change orders). Although the RFP stated that payment terms were 30 days after acceptance, 16 fire apparatus were paid in full over a year in advance of delivery.

The authorization for full payment was formally performed under the exclusive authority of the former Assistant Chief of Capital Assets (who was also the Contract Manager), who advised

that the payments were advanced in order to take advantage of a 3% discount offered by the manufacturer. The Fire Chief was verbally consulted; however, a detailed analysis of the financial and non-financial risks related to these payments was not performed. The Director of Finance was informally consulted about the opportunity of advancing payments when discounts are offered; however, he was not informed of the specifics, namely the intention to pay for the fire apparatus in full (less discount) more than a year in advance.

Reasonable advance and progress payments are not unusual for high-value capital projects. However, the authorization for significant payments in full (less discount) a year in advance results in significant financial risk to the City, should the vendor or the manufacturer encounter financial or operational issues in the period.

In addition, there were concerns over the process to release the payments. A management-level employee was able to authorize several payments of over \$1 million without a secondary approver, and the purchasing and financial policies did not provide explicit guidance regarding if and when an advance payment can be made (which should include an elevated level of approval and other requirements such as formal assessment of financial impact, risk and rationale). MFES management has advised Internal Audit that they will discontinue the practice of making advance payments in full, effective immediately.

### **Reinforce the importance of management of the project budget (Objectives A, C and D)**

During the construction of the fire apparatus, the Contract Manager, along with the project team, identified several changes to the specifications. The changes were authorized and approved at the sole discretion of the Contract Manager, which resulted in net added costs of approximately \$670K USD for the 19 fire apparatus ordered in 2018 and 2019. The lack of a secondary approval of significant specification changes, especially those with high financial impact, breaches the principle of segregation of duties and may result in unexpected and unsupported costs to the City.

Moreover, the RFP estimated purchasing 24 fire apparatus within the five-year contract (allowing for three (3) one-year extensions). The additional change specifications will likely reduce the ability to complete the original estimated purchase within the approved budget. However, at the completion of our review, only one change order (approximately \$48K) had been submitted. The effect on the budget was further aggravated by increases in the exchange rate over the period as well as potential calculation errors. The table below summarizes the approved and spent budget in the project up to April 2019.

Activity	Date	USD Amount	CAD Amount
Council approved funding	2017 budget		\$ 22,410,000.00
PAR approved by all parties	23-Jan-2018	\$ 20,601,599.79	\$ 25,545,983.74*
Contract issued	23-Jan-2018	\$ 18,601,599.79	\$ 23,065,983.74*
Change order	20-Feb-2019		\$ 47,475.94
Budget spent	As of April 2019	\$ 15,877,125.33	\$ 21,116,576.69**

\* based on the exchange rate of 1.24 CAD/USD on that date

\*\* based on an average effective exchange rate of 1.33 CAD/USD; amount includes 19 fire apparatus already paid for and/or to be delivered, and all additional changes to specifications



There is approximately \$1.29M CAD remaining from the approved budget, and there are approximately five (5) more fire apparatus to be ordered. Therefore, while the project has not yet exceeded its five-year budget, the lack of adjustments (via change orders and budget requests), considering the likelihood of budget overruns, will reduce the number of fire apparatus that will be purchased under the approved budget and may reduce the City's ability to provide continuous funding in the future.

**Update the bid evaluation procurement processes, and provide training and oversight to ensure the processes are adhered to (Objectives A and G)**

The RFP is the master document guiding the procurement and ensuring that the specifications, requirements and clauses are aligned with the City's business objectives. Internal Audit noted that certain steps of the bid evaluation and post-award processes were not supported by formal documentation or justification (e.g. discrepancy between the approved budget and contract amount authorized due to currency conversion oversight, changes to the payment terms, inconsistent warranty start dates, etc.). An urgency to complete the procurement led to the lack of oversight, guidance and adequate training over the procurement process and insufficient checks and balances for a procurement of this magnitude.

**Ensure formal communication to the Treasury Unit of upcoming significant payments in a timely manner (Objectives C and G)**

The Treasury Unit within Finance has informally requested that all contract managers provide advance notice for large payments in US currency due to the limited amount of funds available in the US bank account for all cheques and Electronic Funds Transfer (EFT) payments. Advance notice allows Treasury to ensure there are sufficient funds in the City's US bank accounts and, when needed, properly manage the purchase of US currency.

**Provide formal acceptance of the apparatus only after appropriate technical reviews to reinforce accountability and record-keeping (Objectives B and G)**

The contract with the vendor requires that the City provide a written notice of acceptance, which resolves the purchase order. In the absence of a City-designed document for this, the "Apparatus Acceptance" form provided by the vendor is considered to fulfill this requirement.

Of the twelve (12) fire apparatus delivered to the City as of February 2020, Internal Audit noted that two (2) acceptance forms were missing and the remaining ten (10) were incomplete or had inaccurate information (e.g. date of acceptance missing, defects of fire apparatus not noted). Also, the forms were not retained as part of the City's record-keeping process (the vendor later provided a copy from their records). Incomplete or inaccurate acceptance process increases the risk that a defective fire apparatus can be deemed as accepted and put into service.

**Liaise with manufacturer to correct their warranty start dates and comply with the warranty terms specified in the contract (Objectives A, B and E)**

Management of warranty terms is vital for high-value assets (i.e. fire apparatus) in determining whether components are under warranty over the life of the fire apparatus. As per the RFP, the manufacturer warranties commence when the fire apparatus is first put into service by MFES.

However, the manufacturer has recorded an earlier warranty start date in their records, notably the shipping date from their premises, causing a difference ranging from one (1) to five (5) months from what is established in the contract. There is a risk that the manufacturer will not acknowledge the agreed upon warranty period and, should any issues arise towards the end of the period, the City may incur unwarranted maintenance costs.

### **Strengthen disposal of surplus assets process (Objective F)**

A surplus asset is an obsolete, unusable or excess asset destined for disposal in a manner that is economical for the City.

The audit's analysis of the fire apparatus disposals completed in 2019 (13 auctioned and 2 donated) revealed weaknesses in the overall process, including occurrences where the request and approval to dispose of assets originated from the same employee, and the asset's market value was estimated by the requestor without secondary review. It was also noted that the approval thresholds were based on the estimated market value of each asset rather than the total value of all assets, and without consideration of the effective book value of the asset.

While there was no conclusive evidence of financial losses, the current process leaves the opportunity for potential errors and abuse, as it may allow a single employee to control all key aspects of the asset disposition process. Such weakness could result in wrongful or incorrect decisions that prevail without a secondary review, increasing the risk of economic loss to the City.

### **Strengthen the management of the contract with the auctioneer (Objective F)**

While a review of the corporate process for asset disposal was not part of the original scope, Internal Audit noted that the contract with the auctioneer is managed by a Contract Manager (working in Transportation and Works – Works Operations and Maintenance Division) who is also a requestor of auction services. The same employee having these dual responsibilities increases the risk of collusion and presents a conflict of interest. Internal Audit is not aware of any actual issues in the relationship with the auctioneer; however, from a risk management perspective, the arrangement could expose the City to unnecessary risk.

### **Formally establish roles and accountabilities around the fire apparatus lifecycle and document relevant process steps (Objectives A, B, F and G)**

Formal documented processes related to the lifecycle of a fire apparatus (e.g. ordering, delivery, inspection, maintenance and disposal of the fire apparatus) were not available, with staff relying primarily on their knowledge and experience to perform their duties. Furthermore, the training records were missing key information and there was no process to assess effectiveness of the training activities.

The absence of documented processes increases the risk of unclear roles and responsibilities for staff, inconsistent practices, increased errors and potential lack of accountability. In particular, we found that important information was not documented during training sessions, and record-keeping was incomplete. There was no clear method of measuring training effectiveness, which could lead to reduced understanding and possible liability against the City.

**Maintain accurate and up-to-date acquisition and disposal records and ensure integrity of the information retained (Objectives A and F)**

MFES retains documentation from the various stages of the acquisition and disposal process. While reviewing the records, Internal Audit noted several relevant records were either missing, not updated in a timely manner or different from the system of record. Inaccurate and outdated records impair the integrity of information and increase the risk of not discovering issues in a timely manner.

**Create a central repository with controlled access to all relevant documentation regarding the fire apparatus purchasing process (Objectives A, B and E)**

Access to documentation related to fire apparatus is imperative for the Contract Manager and other staff as it contains pertinent information they require to perform their roles and responsibilities effectively. At the time of the audit, hard copies of the documentation (e.g. fire apparatus specifications, warranty claims, etc.) were exclusively managed by the Contract Manager and stored in a cabinet that only he and the head of administration had access to.

There is an increased risk of single point of failure, data loss and unavailability if documents are not stored electronically in a central location and available to the personnel that require them as part of their job duties. In case of emergencies that prevent access to the physical location, staff may not be able to obtain the information they need to complete their work within reasonable timeframes.

**CONCLUSION**

Based on the observations, Internal Audit opinion is that the control environment around the acquisition, delivery, inspection, maintenance and disposal of fire apparatus needs significant improvement, primarily due to the issues with advance payments and budget monitoring, certain issues with segregation of duties, process oversight and lack of documented procedures.

A total of 21 recommendations resulted from this audit. The table below summarizes the recommendations by classification and priority.

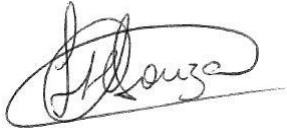
Classification	Medium	High	Total
Efficiency and Effectiveness	0	1	1
Operational Control and Financial Reporting	9	6	15
Safeguarding of Assets and Information	3	2	5
<b>Total</b>	<b>12</b>	<b>9</b>	<b>21</b>

Details of the audit recommendations and management comments can be found in Appendix A.

Management has agreed to all the recommendations. Seven (7) will be completed by end of December 2020, twelve (12) will be completed by end of March 2021, one (1) will be completed by end of June 2021, and one (1) will be completed by end of December 2021.

The Assistant Chief of Capital Assets, who was the Contract Manager for this program, left the organization after the completion of this audit for reasons not related to this audit.

We would like to thank MFES Fire Chief Tim Beckett and his team, Acting Assistant Chief of Capital Assets Tracey Martino and her team within the Capital Assets Unit, as well Materiel Management and Finance personnel for their time and assistance during the audit.



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Luis H. Souza, CPA, CMA, CIA  
Director, Internal Audit

Auditor: Vandana Waghela, PMP, CISA  
Internal Auditor

**Community Services Department  
Fire & Emergency Services Division  
Capital Assets Section  
Fire Fleet Acquisition Audit  
Summary of Audit Recommendations**

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<b>Rec</b>	<b>Recommendation</b>	<b>Priority (H/M/L)</b>	<b>Comments/Status</b>	<b>Classification</b>
1	That MFES adopt an electronic central repository for all fire apparatus related information, with controlled access granted to the personnel and functions that require them to perform their job duties.	Medium	SharePoint site to be set up for fire apparatus that includes the following: Truck alias, specifications, repair history, insurance/license information.  To be completed by December 31, 2020	Operational Control and Financial Reporting
2	That MFES retain supporting documentation (e.g. changes to specifications, including rationale and justifications, etc.) for record-keeping, share with the responsible Buyer from Materiel Management and Materiel Management staff to upload to Procurement Centre.	Medium	SOP to be developed to specify requirements for the documentation of apparatus specification changes and sharing information with MM via the Procurement Centre. This will follow corporate policies and procedures.  This will require having City staff (from Community Services (CMS) – Business Planning, external to Fire) attend the Garry W. Morden Centre (GWMC) to observe and interview staff for SOP development. This will be dependent on COVID timelines. Target date is based on a September return to the workplace for City staff.  To be completed by March 31, 2021	Operational Control and Financial Reporting
3	That MFES develop Standard Operating Procedures for processes staff perform as part of their duties and responsibilities (e.g. checklists, forms, guidelines, etc.).	Medium	SOP to be developed to specify requirements of job duties for Emergency Vehicle Technicians (EVT's).  This will require having City staff (from CMS Business Planning, external to Fire) attend the GWMC to observe and interview staff for SOP development.	Operational Control and Financial Reporting

**Community Services Department  
Fire & Emergency Services Division  
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Summary of Audit Recommendations**

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			<p>This will be dependent on COVID timelines. Target date is based on a September return to the workplace for City staff.</p> <p>To be completed by March 31, 2021</p>	
4	That MFES update training records, assessments be mandatory for employees who have completed fire apparatus training sessions, and results be retained for record-keeping.	Medium	<p>SOP to be developed to clarify the process for the documentation and retention of training records for all staff training. This will follow corporate policies and procedures.</p> <p>To be completed by March 31, 2021</p>	Operational Control and Financial Reporting
5	That MFES ensure the delivery and acceptance forms include additional information (e.g. date form was signed), authorized by the appropriate staff and a secure, electronic copy be retained for record-keeping.	Medium	<p>Update the existing delivery and acceptance form to include date of signature. Develop SOP for delivery and acceptance of vehicles.</p> <p>In the interim, MFES will trial a new acceptance process with new vehicles being delivered in the short term.</p> <p>To be completed by March 31, 2021</p>	Operational Control and Financial Reporting
6	That the acceptance forms be signed by authorized MFES staff after there is validation that no deficiencies are noted with the fire apparatus.	Medium	<p>With assistance from CMS Business Planning, develop SOP for delivery and acceptance of vehicles.</p> <p>In the interim, MFES will trial a new acceptance process with new vehicles being delivered in the short term.</p> <p>To be completed by March 31, 2021</p>	Safeguarding of Assets and Information
7	That Materiel Management review the Surplus Asset Form to enhance controls (i.e. initiator is different than approver and approval thresholds based on a lot's total value within a	Medium	<p>Agreed.</p> <p>To be completed by October 31, 2020</p>	Operational Control and Financial Reporting

**Community Services Department  
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Summary of Audit Recommendations**

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	specified timeframe) and include additional information to support the disposal of the surplus asset.			
8	That Materiel Management consider contracting a corporate-wide external, independent appraiser or request an appraisal from internal resources for high-value assets to determine the estimated market value (based on the original and book value of the asset) to maintain impartial judgement and ensure segregation of duties. The higher of the appraised value and the net book value should be used as the estimated market value.	Medium	Need for third party appraisal (internal or external) for high-value disposals to be added to Disposals Policy.  To be completed by January 31, 2021	Safeguarding of Assets and Information
9	That the contract for auction be transferred to Materiel Management as it is a City-wide contract.	Medium	Agreed.  To be completed by October 31, 2020	Operational Control and Financial Reporting
10	That the auctioneer service provide a copy of the bill of sale validating the purchaser and purchase price of City assets sold at auction.	Medium	Purchaser name may be private information. Materiel Management will request a copy of the bill of sale from the auctioneer prior to next use of auction service or by the Target Date.  To be completed by October 31, 2020	Safeguarding of Assets and Information
11	That Materiel Management establish appropriate delegation of authority for signing the Application for Vehicle Transfer portion of the vehicle ownership for all City vehicles.	Medium	Agreed. Disposals Policy to be updated to identify appropriate signing authority of vehicle transfer portion of ownership document.  To be completed by January 31, 2021	Operational Control and Financial Reporting
12	That Treasury establish a formal City-wide policy related to advance notification of upcoming acquisitions and payments, including dollar threshold and timeframe.	Medium	Finance will revise the Financial Controls and Budget Monitoring Policy (04-04-02) to outline the responsibilities of staff in providing advance notice of upcoming acquisitions and payments to Treasury. The policy revisions will	Operational Control and Financial Reporting

**Community Services Department  
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Capital Assets Section  
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			provide direction on dollar thresholds and the acceptable notification periods.  To be completed by December 31, 2020	
13	That MFES review its records retention processes and the processes around updating information in the relevant systems, regarding the fire apparatus, in order to ensure that they are accurate and updated in a timely manner.	High	See recommendation #1. SOP to be developed to support regular updates to apparatus information.  Deliverables are to set up SharePoint site and move existing files which can be done by year end. SOP to be developed by Target Date.  To be completed by March 31, 2021	Operational Control and Financial Reporting
14	That MFES retain up-to-date and accurate insurance certificates for record-keeping.	High	See recommendation #1. SOP to be developed to support regular updates to apparatus information.  To be completed by March 31, 2021	Safeguarding of Assets and Information
15	That MFES ensure the manufacturer's Warranty Start Date reflects the date the fire apparatus was put into service by the City to comply with the contract and maximize the warranty period.	High	MFES management will communicate with manufacturer to ensure existing warranty start dates match MFES in-service dates.  SOP to be developed. To be included in Delivery and Acceptance of Vehicles SOP (see recommendation #5).  To be completed by March 31, 2021	Safeguarding of Assets and Information
16	That Finance establish approval thresholds in the payment system for significant payments.	High	SAP Concur Invoice, which was introduced following the payment in question, requires all payments by Purchase Order to be prepared by an originator and signed off by an approver. Approvers must be management level	Operational Control and Financial Reporting



**Community Services Department  
Fire & Emergency Services Division  
Capital Assets Section  
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Summary of Audit Recommendations**

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			<p>employees. Spending authority is granted for contracts and purchase orders over \$50,000 at the Director level, and \$100,000 at the Commissioner level through a procurement authorization request. While Finance staff believe this control is sufficient we respect the opinion of the Auditor and will revise the Corporate Policy to require Commissioner approval to release cheques exceeding \$2 million where a purchase order is in place.</p> <p>To be completed by December 31, 2021</p>	
17	That supporting documentation for the analysis conducted for making advance payments be retained by Finance for record-keeping, and appropriate delegation of authority be established for full payments in advance of receiving the goods.	High	<p>MFES will not authorize pre-payment discounts. SOPs should be developed by Finance.</p> <p>The Payment Request Policy (04-05-12) will be revised to reflect that pre-payment in full for goods is not allowed. Finance does not support pre-payment.</p> <p>To be completed by December 31, 2020</p>	Operational Control and Financial Reporting
18	That MFES obtain appropriate delegation of authority (e.g. Corporate Report, sign-off from Director/Commissioner, etc.) for any changes to the contract with the vendor.	High	<p>With assistance from CMS Business Planning, to be included in SOP for recommendation # 2 - specification changes.</p> <p>To be completed by March 31, 2021</p>	Operational Control and Financial Reporting
19	That Materiel Management provide staff with adequate training and oversight on bid evaluation processes and work in tandem with the business client, Finance, etc.	High	<p>It should be noted that procurement processes vary depending on the subject purchase and procurement method used, such as RFT (based on hard specs) or RFP (based on</p>	Efficiency and Effectiveness

**Community Services Department  
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			<p>evaluation of solutions proposed by bidders), which are very different processes. There are a great many permutations in an RFP process and each brings potential risks that are evaluated and assessed individually – they do not necessarily translate to recurring risks.</p> <p>A Bid Evaluation Policy is in progress that will clarify procedures, roles and responsibilities.</p> <p>To be completed by October 31, 2020</p>	
20	That Materiel Management verify appropriate delegation of authority has been obtained prior to making changes to the contract.	High	<p>Agreed, this will be reinforced with buyers at an upcoming staff meeting.</p> <p>To be added to contract amendments policy that is currently in progress.</p> <p>To be completed by January 31, 2021</p>	Operational Control and Financial Reporting
21	That MFES apply segregation of duties in processes conducted by one individual, a secondary review (outside of the project team) be established for all changes with a financial impact, and the budget be monitored regularly to ensure the project is completed within the approved amount.	High	<p>SOP to be developed for the approval of large purchases that will identify segregation of duties related to approval of increased cost and overall budget monitoring. This will follow corporate policies and procedures.</p> <p>To be completed by June 30, 2021</p>	Operational Control and Financial Reporting

# City of Mississauga Corporate Report



Date: September 8, 2020  To: Chair and Members of Audit Committee	Originator's files:
From: Paul A. Mitcham, P.Eng., MBA City Manager and Chief Administrative Officer	Meeting date: September 21, 2020

## Subject

**Status of Outstanding Audit Recommendations as of June 30, 2020**

## Recommendation

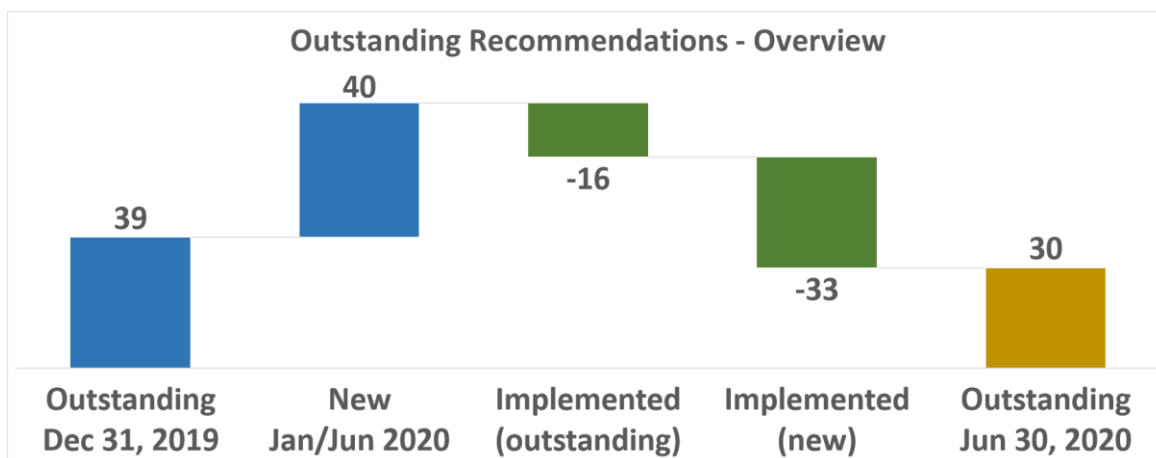
That the Corporate Report dated September 8, 2020 from the City Manager & Chief Administrative Officer regarding the status of outstanding audit recommendations as of June 30, 2020 be received for information.

## Background

The terms of reference for the Audit Committee (By-law 0069-2015) requires the submission of an annual report from the City Manager and Chief Administrative Officer indicating the progress made in resolving the issues previously raised by Internal Audit and by the City's External Auditor. At the November 2011 Audit Committee meeting, members requested that bi-annual progress updates be submitted. The current report shows the status as of June 30, 2020.

## Comments

The evolution of the audit recommendations since December 31, 2019 (the effective date of the previous status report to the Audit Committee) is presented in the chart below.



Audit Committee	2020/09/08	2
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Sixteen (16) of the thirty-nine (39) previously outstanding recommendations have since been completed and implementation of these recommendations has been verified by Internal Audit. Twenty-three (23) recommendations remain outstanding.

Forty (40) new recommendations that were due between January 1, 2020 and June 30, 2020 were added to the list. Thirty-three (33) have been completed and implementation of these recommendations has been verified by Internal Audit. The remaining seven (7) recommendations are in various stages of implementation.

In addition, three (3) recommendations with a due date after June 30, 2020 have been completed ahead of the scheduled due date.

A summary of the recommendations which were outstanding as of December 31, 2019 and those scheduled for completion from January 1 to June 30, 2020 is provided in Appendix 1.

Clarifications provided by management on eleven (11) recommendations whose initial due date has passed over a year are presented in Appendix 2. Of these, all of which received revised target dates, six (6) involve review and updating of business processes, four (4) relate to enhancements of computer systems and one (1) entails a review and update of a By-law.

## Financial Impact

There are no financial impacts resulting from the Recommendation in this report.

## Conclusion

In summary, seventy-nine (79) recommendations were scheduled for implementation prior to June 30, 2020 (effective date of this report) and 49 (forty-nine) of them were completed. Another three (3) recommendations, due after June 30, 2020, were completed ahead of schedule. Work continues on the implementation of the thirty (30) recommendations that were outstanding as of June 30, 2020 and will be closely monitored to ensure timely implementation.

## Attachments

Appendix 1: Status of Audit Recommendations Outstanding as at June 30, 2020

Appendix 2: Status of Audit Recommendations Outstanding and extended for more than a year as of June 30, 2020




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Paul A. Mitcham, P.Eng., MBA  
City Manager and Chief Administrative Officer

Prepared by: Barb Webster, Senior Internal Auditor

STATUS OF AUDIT RECOMMENDATIONS  
OUTSTANDING AS AT JUNE 30, 2020

Appendix 1 8.2

(1) Name of Audit	(2) Date Issued (MM/YY)	(3) Outstanding DECEMBER 31, 2019*	(4) New **	(5) Implemented/ Resolved	(6) In Progress June 30, 2020	(7) Due After June 30, 2020 and completed ***
F&PM Current Maintenance Contracts	10-15	2			2	
Mississauga SportZone Cash Handling	01-16	1			1	
MFES Building and Fleet Maintenance	04-17	1			1	
CLASS Facility Rentals	08-17	3			3	
Works Operations Payroll	08-17	2			2	
Single, Sole Source and Emergency Acquisition	10-18	1			1	
Non-Union Payroll	04-19	7	3	3	7	
Street Lighting Program	04-19	9		2	7	
Library Acquisitions	04-19	3		2	1	
Infrastructure Services IT Hardware	09-19	4	3	7		1
Cashiers Operations	09-19	3	3	6		
Traffic Signals & Systems Program	11-19	1	8	8	1	1
Stormwater Revenue	11-19	2	23	21	4	1
<b>TOTAL</b>		<b>39</b>	<b>40</b>	<b>49</b>	<b>30</b>	<b>3</b>

\* This column includes recommendations which were originally scheduled for implementation on or prior to December 31, 2019 (effective date of the previous status report to Audit Committee)

\*\* This column includes recommendations which were originally scheduled for implementation between January 1, 2020 and June 30, 2020 (effective date of the current status report to Audit Committee)

\*\*\* This column indicates recommendations which were originally scheduled to be implemented after June 30, 2020 but have already been completed

STATUS OF AUDIT RECOMMENDATIONS  
OUTSTANDING AND EXTENDED FOR MORE THAN A YEAR  
AS OF JUNE 30, 2020

Appendix 2

Audit	No. of Recommend- ations	Rec. #	Comments/Status
Review and Update of Business Processes			
2016 Mississauga Sport Zone Cash Handling	1	11	A City-wide policy is currently being completed by Security Services and should be completed by January 2021. Once the policy is approved, Community Services will update their Lost and Found Standard within 3 months to comply with the policy requirements.
2017 CLASS Facilities Rental	3	4, 5, 9	Covid-19 closed down the Community Centres; however, work continued on drafting standard operating procedures, contract development for storage users and the delegation By-law for Facilities rental contracts, which was approved by council in May. The final delegated authority for LAC and PFFC is in progress. Roll-out will be this fall once staff have returned to the facilities with an expected completion of all recommendations by end of 2020.
2017 Works Operations Payroll	1	14	Staff have been working with IT, INFOR and Payroll team to correct coding in the payroll system to ensure they are correct and accurate for payment. Completion will be in the fall of 2020.
2019 Street Lighting Program	1	6	<p>According to the latest response received on May 19, 2020, Alectra has accepted utilization of actual consumption data provided by DimONOFF for the City's street lighting energy billing purposes. However, this billing methodology presently being used is not currently compliant with Measurement Canada regulations and has been seen by Alectra as a pilot method. It is the City's mandate to pay electricity in accordance with all applicable regulations and to attain a permanent billing solution.</p> <p>A draft policy being considered by Measurement Canada as of March 2020 would provide for "Conditional Approval" to use the streetlight control system data for billing purposes. Verification of consumption would also be necessary through a representative collection of consumption by a certified metering device. Alectra will keep us informed.</p>
Review and update of a By-law			
2018 Single, Sole Source and Emergency Acquisition Audit	1	8	New Procurement By-law expected to be approved by Council in Q4 of 2020.

STATUS OF AUDIT RECOMMENDATIONS  
OUTSTANDING AND EXTENDED FOR MORE THAN A YEAR  
AS OF JUNE 30, 2020

Appendix 2

Audit	No. of Recommend- ations	Rec. #	Comments/Status
Enhancement of Computer System			
2015 F&PM Current Maintenance Contracts	2	4, 7	Hardware assigned for the contractors to use was re-assigned and the project was put on hold due to COVID-19. At a minimum the project would be restarted in September, but we are awaiting further notice. If the project starts again in the fall it will not be complete until the end of 2020.
2017 MFES Building and Fleet Maintenance	1	11	New target date of January 1, 2021 to accommodate training on technology that has not been used by staff and to bring the new leadership up to speed on this project.
2017 Works Operations Payroll	1	11	Our records staff was to attend the yards this past Spring to ensure consistency with the filing system throughout. As staff return to work in the fall, we will make this a priority to have completed by the end of 2020.
<b>Total</b>	<b>11</b>		