Audit Committee
Committee of the Council of
The Corporation of the City of Brampton

Tuesday, September 13, 2016
9:30 a.m. – Regular Meeting
Council Committee Room
4th Floor, City Hall

Members:
Regional Councillor Michael Palleschi – Wards 2 and 6 (Chair)
Regional Councillor Martin Medeiros – Wards 3 and 4 (Vice chair)
Regional Councillor Elaine Moore – Wards 1 and 5,
Regional Councillor Gael Miles – Wards 7 and 8
Regional Councillor Grant Gibson – Wards 1 and 5

For inquiries about this agenda, or to make arrangements for accessibility accommodations for persons attending (some advance notice may be required), please contact:
Sonya Pacheco, Legislative Coordinator
Telephone (905) 874-2178, TTY (905) 874-2130, cityclerksoffice@brampton.ca
Note: Some meeting information may also be available in alternate formats, upon request
Note: Please ensure all cell phones, personal digital assistants (PDAs) and other electronic devices are turned off or placed on non-audible mode during the meeting.

1. Approval of Agenda

2. Declaration of Interest under the Municipal Conflict of Interest Act

3. Consent

* The following items listed with an asterisk (*) are considered to be routine and non-controversial by the Committee and will be approved at this time. There will be no separate discussion of any of these items unless a Committee Member requests it, in which case the item will not be consented to and will be considered in the normal sequence of the agenda.

(nil)

4. Delegations/Presentations

5. Reports – Internal Audit


To be received

5.2. Report from A. Damian, Senior Advisor, Internal Audit, Office of the Chief Administrative Officer, dated August 15, 2016, re: Corporate Fraud Prevention Hotline Quarterly Update – Phase I.

To be received


To be received
Agenda
Audit Committee


(See Item 10.1)

To be received

6. Reports – Finance

7. Other/New Business

8. Question Period

9. Public Question Period

15 Minute Limit – (regarding any item discussed as part of this agenda)

10. Closed Session

10.1. The security of the property of the municipality or local board – Liquor Inventory Management Audit Report – Appendix B

(See Item 5.4)

11. Adjournment

Next Meeting: December 13, 2016
Date: 2016-08-23


Contact: Karen Liew, Acting Director, Internal Audit Division, Office of the Chief Administrative Officer, 905-874-3836, karen.liew@brampton.ca

Recommendations:

1. That the report from Karen Liew, Acting Director, Internal Audit Division, dated August 23, 2016 to the Audit Committee Meeting of September 13, 2016, re: Quarterly Status of Management Action Plans – June 2016, be received.

Overview:

- As part of the Internal Audit follow-up process, departments are required to provide Internal Audit with a quarterly update on the management action plan status and progress of outstanding audit recommendations;

- The objective of this report is for Internal Audit to inform Audit Committee members on the progress of the implementation of recommendations, as reported by management;

- The comments reflect the status of the implementation of recommendations due to be completed on or prior to June 30, 2016;

- As at June 30, 2016, 87% of the audit recommendations with an implementation due date of June 30, 2016 or prior, have been completed by management;

- Internal Audit may validate results at a subsequent date as part of the follow up audit process;

- Details concerning the individual recommendations are available upon request.
Background:

In accordance with Standard 2500 A-1 of the International Standards for Professional Practice of Internal Auditing, Internal Audit has established a follow up process to monitor and ensure that management action plans for audit recommendations have been implemented. This process has been in place since 2006.

For the follow up process, departments are required to provide a quarterly update to Internal Audit on the progress of implementing agreed upon audit recommendations. Internal Audit reviews the comments submitted by the department and periodically the Director, Internal Audit will meet with department heads to discuss their comments, if necessary. Internal Audit will perform, in some cases, a follow up audit to validate that the recommendations have been implemented, and that the processes and procedures in place are operating effectively.

The results and comments from management are summarized in a quarterly report to the Audit Committee, which includes a summary of revised due dates for those recommendations that have not been completed by the original due date.

For this report, management responded with information detailing actions taken on recommendations due to be implemented by June 30, 2016.

Current Situation:

All audit recommendations from audit reports issued prior to 2014 have been implemented by management. This report analyzes recommendations from audit reports issued in 2014 and onwards, which have a completion date (as stated in the audit report) of or prior to June 30, 2016. Long range recommendations (implementation completion date subsequent to June 30, 2016) are noted where applicable.

Overall, management has implemented 87% of the recommendations as at June 30, 2016. Since the last report to the June 7, 2016 Audit Committee (which covered the status of audit recommendations with due dates of prior to March 31, 2016, twenty recommendations have been completed.

Overall, there are a total of 203 recommendations that were originally scheduled to be implemented prior to or by June 30, 2016. The following is a table with the breakdown of the recommendations, by department, as at the end of June 2016:

<table>
<thead>
<tr>
<th>Department</th>
<th>As at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>154</td>
</tr>
<tr>
<td>Public Services</td>
<td>25</td>
</tr>
<tr>
<td>Office of the Chief Operating Officer</td>
<td>9</td>
</tr>
<tr>
<td>Planning and Infrastructure Services</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
</tr>
</tbody>
</table>
Note: Where recommendations are the responsibility of more than one department they have been recorded in each of the respective departments.

Since the last report to the June 7, 2016 Audit Committee, management has reported that all recommendations for the following audits have been completed:

- Construction Audit Report, Kennedy Road Widening
- Employee Purchasing Card

The following table provides a breakdown of the status of the recommendations, by audit report, as at the end of June 2016:

For the 26 recommendations where implementation was originally due by or prior to June 30, 2016, management has the following revisions to the implementation dates:

Corporate Implications:

Financial Implications:
None

Other Implications:
None
Strategic Plan:

This report achieves the Strategic Plan priority of Good Government through the establishment of an Internal Audit follow up procedure for the implementation of audit recommendations, which promotes corporate accountability, values and governance best practice.

Conclusion:

Implemented recommendations are following a consistent trend with an overall completion rate of approximately 80% to 90% over the past five years. This demonstrates that management and staff are committed to implementing audit recommendations to enhance processes in order to manage risk more effectively in their respective areas. Internal Audit encourages management and staff to continue striving to meet the target completion dates of audit recommendations.

Approved by:

Karen Liew, CPA, CA
Acting Director, Internal Audit

Report authored by: Karen Liew, CPA, CA
Acting Director, Internal Audit
Date: 2016-08-15

Subject: Corporate Fraud Prevention Hotline Quarterly Update – Phase I

Contact: Andrew Damian, Senior Advisor, Internal Audit Division, Office of the Chief Administrative Officer, 905-874-2216, andrew.damian@brampton.ca

Recommendations:

1. That the report from Andrew Damian, Senior Advisor, Internal Audit, Internal Audit Division, dated August 15, 2016 to the Audit Committee Meeting of September 13, 2016, re: Corporate Fraud Prevention Hotline Quarterly Update – Phase I, be received.

Overview:

- Phase I of the Corporate Fraud Prevention Hotline is complete and the Hotline was launched on July 4, 2016 for the use of City of Brampton employees;

- Expected implementation of Phase II, Corporate Fraud Prevention Hotline open to members of the public, is early 2017;

- As of August 15, 2016 the Hotline has received three (3) reports of alleged fraud;

- The types of reports received include unethical conduct, conflict of interest and non-compliance with policy or procedure;

- Internal Audit is conducting preliminary investigations for two of the reports. No action will be taken on the third report as insufficient information was provided;

- Internal Audit will continue to update the Audit Committee on a quarterly basis on the status of the Corporate Fraud Prevention Hotline.
Background:

As part of the City of Brampton’s commitment to protecting its assets, the Corporation has established a framework to prevent, detect and report incidence of fraud, as well as investigate any suspected acts of fraud. This initiative reflects the City’s proactive efforts to ensure and demonstrate our commitment to corporate accountability, transparency, responsibility and sound, ethical operating practices. On June 17, 2015 Council approved the Corporate Fraud Prevention Policy and related Fraud Prevention Hotline (Hotline) which support the high level of integrity of City employees and also help protect City property, resources and information. In March 2016 the City purchased a third party intake service and case management system, ClearView Connects, provided by ClearView Strategic Partners (ClearView) to assist City staff in managing and tracking the status of all incidents of potential fraud reported by City employees through the Fraud Prevention Hotline. The ClearView Connects system allows employees who contact the Hotline to remain anonymous, if they choose to do so, and does not gather any personal information from the employee or from the originating telephone or computer.

Current Situation:

On July 4, 2016 the City launched Phase I of the Fraud Prevention Hotline which allows City employees to report alleged incidents of fraud. Phase II of the initiative, which will make the Hotline available to the public, will be implemented in early 2017, after the first six months of operation. The Fraud Prevention Hotline allows employees to report incidents anonymously and confidentially 24 hours a day, seven days a week. To report an incident of suspected fraud, employees can submit a report through the ClearView secure website, over the phone through a dedicated toll-free number and by mail through a confidential post office box.

As part of the implementation of the Fraud Prevention Hotline, Internal Audit developed and finalized processes and documentation that provide guidance to staff. Internal Audit created a dedicated web page on the OurBrampton internal portal which includes many resources to assist City staff, including relevant corporate policies and standard operating procedures, the Fraud Prevention Hotline process, information on how ClearView ensures the security and privacy of information, and an extensive Frequently Asked Questions section.

In addition, a communication strategy was developed in consultation with the City’s Strategic Communications division to inform and educate City staff, Mayor and Members of Council, Executive Leadership Team and Management. Communication efforts for the City’s Fraud Prevention Hotline to date have included a briefing note (via email message) to Mayor and Members of Council, a report to Audit Committee of June 7, 2016 with details on the progress of the implementation process, a presentation by Internal Audit to members of the Leadership Team on June 14, 2016, and a Spotlight message on the OurBrampton internal portal. In addition, an article will be published in the August issue of the internal Connections newsletter that is circulated to all City staff.
Internal Audit is committed to updating the Audit Committee on a quarterly basis on the status of the Corporate Fraud Prevention Hotline, including statistics on the number and types of reports received. As of August 15, 2016, the Hotline has received a total of three (3) reports of alleged fraud. The following table provides a summary of the reports:

<table>
<thead>
<tr>
<th>Report Category</th>
<th>Report Method</th>
<th>Date Submitted</th>
<th>Report Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unethical Conduct</td>
<td>Letter</td>
<td>August 2016</td>
<td>Ongoing preliminary investigation by Internal Audit</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>Letter</td>
<td>August 2016</td>
<td>Ongoing preliminary investigation by Internal Audit</td>
</tr>
<tr>
<td>Non-Compliance with Policy or Procedure</td>
<td>Web</td>
<td>July 2016</td>
<td>Reviewed by Internal Audit, No Action (insufficient information provided by reporter)</td>
</tr>
</tbody>
</table>

**Corporate Implications:**

**Financial Implications:**

The 2016 operating budget approved by Council, includes $140,000 for implementation, maintenance and operation of the Corporate Fraud Prevention Hotline. The contract underway with ClearView is in the amount of approximately $30,000 for services provided over a 12-month period from the date of implementation. There is sufficient funding approved and available to continue to support the Hotline.

**Other Implications:**

None

**Strategic Plan:**

This report achieves the Strategic Plan priority of Good Government through the operation of Corporate Fraud Prevention Policy and Hotline that promotes corporate accountability and values and governance best practice.

**Conclusion:**

The Corporate Fraud Prevention Policy and Hotline enhances and strengthens the City’s governance structure. It reinforces Council’s expectations regarding rules of behavior and emphasizes the values of the City. Phase I of the implementation of the Corporate Fraud Prevention Hotline is now available to City employees as of July 4, 2016. Internal Audit is currently investigating the reports received through the Hotline.
and will continue to update the Audit Committee on the status of the Hotline and any ongoing and/or completed fraud investigations at upcoming meetings.

Approved by:     Approved by:

____________________________________  ______________________________________
Karen Liew, CPA, CA                      Andrew Damian, CIA
Acting Director, Internal Audit           Senior Advisor, Internal Audit

Report authored by:  Andrew Damian, CIA
                     Senior Advisor, Internal Audit
Date: 2016-08-02

Subject: Transit PRESTO Revenue Audit Report

Contact: Reem Elchaer, Internal Auditor, Internal Audit Division, Office of the Chief Administrative Officer, 905-874-2276, reem.elchaer@brampton.ca

Recommendations:

1. That the report from Reem Elchaer, Internal Auditor, Internal Audit Division, dated August 2, 2016 to the Audit Committee meeting of September 13, 2016, re: Transit PRESTO Revenue Audit Report, be received.

Overview:

- Internal Audit conducted a review of the accuracy, completeness and timely recording of the Transit PRESTO revenue over the period of January 1, 2015 to December 31, 2015.

- The audit was included in the 2015 Internal Audit Work Plan, and was approved by the Audit Committee.

- The audit was conducted in conformance with the Standards for the Professional Practice of Internal Auditing.

- Overall, Transit management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of PRESTO revenues. With the renewal of the PRESTO System Project Service Level Agreement, Transit management should ensure that:

  i) Metrolinx commits to finding solutions to address system-related issues (i.e. missing bus fare and PRESTO card transactions);

  ii) Transit management negotiates a more comprehensive Service Level Agreement with Metrolinx;

  iii) Transit management co-ordinates with Metrolinx to ensure that PRESTO transactions from Metrolinx’s system can be interfaced with the City’s point-of-sale system to avoid multiple manual inputs.
Background:

In September 2006, an Operating Agreement was signed between the Province of Ontario and the ‘905’ municipalities, including the City of Brampton (City), to establish the Greater Toronto Area Fare System (Fare System). The Fare System was to be administered by Metrolinx, an agency of the Government of Ontario.

More than four years after the Operating Agreement was put in place (May 2011), the City became one of the transit service providers in the Greater Toronto and Hamilton Area to introduce the new farecard system, which operates under the banner name PRESTO.

PRESTO is an electronic farecard that allows transit riders to travel throughout the Greater Toronto, Hamilton and Ottawa area. PRESTO reimburses the City for fare revenue based on fare data, route information and other master data provided by the City to PRESTO, as well as, actual ridership data captured by the PRESTO devices installed on the City’s buses.

The City’s Transit Service Centers process various types of PRESTO transactions, including purchase of PRESTO cards, period passes, load of PRESTO cards, etc. The City earns a commission of approximately 2% from Metrolinx when funds are loaded onto a PRESTO card at the Transit Service Centers (i.e. a processing fee). When the PRESTO cards are used to pay for Brampton Transit’s bus fare, the City earns approximately 98% of the bus fare revenue.

In 2015, Transit Revenue amounted to approximately $53.8M, which comprised of the following:

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Amount</th>
<th>% of Total Transit Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRESTO revenue (Note 1)</td>
<td>$40.6M</td>
<td>76%</td>
</tr>
<tr>
<td>Non-PRESTO fare revenue</td>
<td>$11.5M</td>
<td>21%</td>
</tr>
<tr>
<td>Advertising revenue</td>
<td>$1.2M</td>
<td>2%</td>
</tr>
<tr>
<td>Other revenues</td>
<td>$0.5M</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total Transit Revenue</strong></td>
<td>$53.8M</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Note 1: PRESTO revenue of $40.6M is within the scope of this audit. The other transit revenues are out of scope for this audit.*

Audit Objectives and Scope:

The period covered by this audit is the calendar year 2015. The objectives of this audit were to ensure:

- PRESTO transactions are accurately and completely recorded in the Metrolinx system;
- The City’s PRESTO revenues, as determined by Metrolinx, are accurate, complete and deposited into the City’s bank account on a timely basis;
- PRESTO transactions are accounted for accurately, completely and on a timely basis in PeopleSoft.

The scope of the audit included the assessments of:

- PRESTO transactions, including card issuance, payments, loads and purchase of transit passes;
- PRESTO transactions related to payment of bus fares;
- Metrolinx’s calculation of the City’s PRESTO commission;
- Deposit of the City’s revenues in its bank account;
- Recording of PRESTO transactions in the general ledger (PeopleSoft).

The following processes were not in scope:

- Operational procedures performed at the Transit Service Centers relating to the processing of PRESTO transactions;
- Operational procedures performed by Transit staff relating to the maintenance and repair of PRESTO devices;
- Processes and procedures related to the on-line purchases of Brampton Transit passes and loading of PRESTO cards.

**Current Situation:**

Overall, Transit management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of PRESTO revenues. With the renewal of the PRESTO System Project SLA, Transit management should ensure that Metrolinx commits to finding solutions to address the system-related issues (i.e. missing transactions and system interfaces). Additionally, it is recommended that Transit management negotiates a more comprehensive Service Level Agreement with Metrolinx.

Internal Audit identified the following opportunities for improvements:

i) An estimated $69.6K of bus fare payments was not captured by the Metrolinx system in 2015. After deducting Metrolinx’s commission of 2%, the estimated loss to the City was approximately $68.2K in 2015 (or 0.1% of total PRESTO revenue). Despite the recurring issues, Metrolinx has not implemented a solution to address missing transactions.

ii) An estimated $30.0K of PRESTO transactions that were processed at Brampton’s Transit Service Centers did not appear in Metrolinx’s system. The net financial loss to the City was approximately $600 (or 0.1% of total payment load commissions), as the City receives a 2% commission on these transactions. Despite the recurring issues, Metrolinx has not implemented a solution to address missing transactions.
iii) Where the City of Brampton (City) experiences equipment failure through the out of maintenance program, the current SLA fails to address specifically the vendor’s response time, repair time and data reporting requirements. In the absence of a comprehensive SLA, delays in receipt of data can result in understated ridership and revenues until these transactions are uploaded.

iv) The lack of a system interface between the City’s point-of-sale (CLASS) and Metrolinx’s system leads to keying errors as Transit staff resorts to manual entries. Keying errors related to the PRESTO card’s serial number could cause delays and/or disagreements between the City and Metrolinx, in cases where investigations over disputed transactions are required.

Corporate Implications:

Financial Implications:
Please refer to discussions under “Current Situation” above.

Other Implications:
Please refer to discussions under “Current Situation” above.

Strategic Plan:

This report achieves the Strategic Plan priority of “practise proactive, effective and responsible management of municipal assets and services.”

Conclusion:

Overall, Transit management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of PRESTO revenues. With the renewal of the PRESTO System Project SLA, Transit management should ensure that Metrolinx commits to finding solutions to address the system-related issues (i.e. missing transactions and system interfaces). Additionally, it is recommended that Transit management negotiates a more comprehensive Service Level Agreement with Metrolinx.
Attachments:

Appendix A: Transit PRESTO Revenue Audit – Detailed Observations

Report authored by: Reem Elchaer, CPA, CA
Karen Liew, CPA, CA
Acting Director, Internal Audit
Internal Auditor, Internal Audit

Page dimensions: 595.5x842.2
Observation 1: Bus Fare Transactions Not Captured in the Metrolinx System

Internal Audit compared the bus fare payment data between Metrolinx and Transit’s system for 2015 and estimated that approximately $69,600 (or 0.2% of total bus transactions) that existed in the City’s transit system did not appear in the Metrolinx system. After deducting Metrolinx’s commission of 2%, the estimated loss to the City was approximately $68,200 in 2015.

Where bus fares are paid using the PRESTO card, the payment data is stored on a device known as the Main Unit (MU), which is installed in every Brampton Transit bus. Data from the MU is wirelessly uploaded into Metrolinx’s system via a device, known as the Depot Concentrator when buses enter or leave one of the two bus depots (i.e. garages). Brampton Transit also retains a copy of the uploaded data in its system (Service Provider Audit Access Computer – “SPAAC”). Because there have been proven discrepancies in bus transactions between Metrolinx’s system versus SPAAC, Transit management relies on SPAAC as a compensating control in ensuring the accuracy and completeness of Metrolinx’s bus data.

Currently, Transit management monitors the bus fare discrepancies between Metrolinx’s system and SPAAC on a monthly basis. On average, 99.5% to 99.9% of the bus transactions are captured by the Metrolinx system. Transit management advised Internal Audit that Metrolinx is aware of this issue and continues to work with its vendor on a solution. Metrolinx currently maintains a pool of transactions from which the service provider of origin is unidentifiable. The pool of funds is allocated to each service provider quarterly based on their relative percentage of monthly fare payment and load activity. Metrolinx does not provide a detailed summary of the lump sum allocation to the City. As a result, the accuracy of the lump sum payment is not verifiable.

Total funds that were allocated to the City in 2015 related to missing bus fare transactions amounted to approximately $23,300 (or $22,800 after 2% commission to Metrolinx). The estimated net financial loss to the City due to missing bus fare transactions in the Metrolinx system was $45,400 ($68,200 loss minus recovery of $22,800). This represents 0.1% of the City’s bus fare revenue for 2015.

Recommendations:

i) To mitigate the City’s financial losses related to missing bus fare payment data in the Metrolinx system, Internal Audit recommends that Transit management continues to perform the monthly review of Transit’s bus fare payment data against the Metrolinx system. On a quarterly basis, Transit management should reconcile Metrolinx’s allocated funds to actual missing...
transactions. Significant discrepancies should be investigated to ensure any necessary financial adjustments are obtained from Metrolinx.

ii) Transit management should consider obtaining more details and transparency from Metrolinx as to how it allocates such transactions across the service providers.

iii) Transit management should ensure that PRESTO presents a solution to resolve the missing bus transactions issue as part of the Service Agreement renewal negotiation.

Management’s Response:

<table>
<thead>
<tr>
<th>#</th>
<th>Department</th>
<th>Management Action Plan</th>
<th>Responsibility / Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.i</td>
<td>Public Services</td>
<td>Agree with the recommendation. Quarterly reconciliation of bus fare transactions will be performed and significant deviations from the norm will be reported via PRESTO’s incident management process.</td>
<td>Transit Management June 30, 2017</td>
</tr>
<tr>
<td>1.ii</td>
<td>Public Services</td>
<td>Agree with the recommendation. Transit Management will re-engage Metrolinx and make best efforts to have Metrolinx provide more details and transparency around missing transaction allocations.</td>
<td>Transit Management December 31, 2017</td>
</tr>
<tr>
<td>1.iii</td>
<td>Public Services</td>
<td>Agree with the recommendation. During the renewal negotiations, Brampton has tabled missing transactions as an item requiring resolution.</td>
<td>Transit Management December 31, 2017</td>
</tr>
</tbody>
</table>

Observation 2: PRESTO Transactions Not Captured in the Metrolinx System

Internal Audit compared payment load data between Brampton’s point-of-sale system (CLASS) and Metrolinx’s Station Point-of-Sale (SPOS) device, and estimated that approximately $30.0K of PRESTO payment loads did not appear in Metrolinx’s system in 2015. As the City receives a 2% commission on these transactions, the financial impact was approximately $600 loss to the City (or 0.1% of total payment load commissions).

PRESTO transactions, including issuance of the PRESTO card, payments, loads, purchase of transit passes, etc, are processed at Brampton’s Transit Service Centers. These transactions are inputted into both the CLASS system and also Metrolinx’s SPOS device.
Similar to the missing bus fare transactions described under observation 1, Metrolinx maintains a separate pool of payment load transactions from which the service provider of origin is unidentifiable. The pool of funds is allocated to each service provider quarterly based on their relative percentage of monthly fare payment and load activity. Metrolinx does not provide a detailed summary of the lump sum allocation to the City. As a result, the accuracy of the lump sum payment is not verifiable.

Total funds that were allocated to the City in 2015 amounted to approximately $25.0K. As the City only receives a 2% commission on these transactions, the net allocation from Metrolinx was $500. As a result, the net financial loss to the City due to missing PRESTO transactions in the Metrolinx system was $100 ($600 loss minus allocation of $500).

In addition to the unidentified missing transactions, there were instances where the Metrolinx SPOS device failed to receive the transactions due to the spontaneous loss of the unique location identification number (i.e. the TrxLocID). For 2015, Transit management identified a total of $50.6K of such transactions from its daily settlement reconciliation. The financial impact to the City at the commission rate of 2% was approximately $1.0K. These identifiable missing transactions were reported to Metrolinx as they arose, and were fully reimbursed to the City by Metrolinx. This reimbursement is separate from the pooled funds of unidentifiable transactions. Although the City received full payment related to the identifiable missing transactions, the details of each PRESTO transaction do not exist in the Metrolinx system. As a result, the data in the Metrolinx system is not complete for reporting purposes.

Although the net financial loss to the City was insignificant in 2015 when both identifiable and unidentifiable missing transactions are combined, it is evident that Metrolinx’s SPOS device failed to operate consistently. Both financial and operational risks to the City may increase over time as the volume of PRESTO transactions increases. Transit management advised us that Metrolinx is aware of the issue and that it is working with its vendor on a solution. To mitigate the City’s financial loss due to missing PRESTO transactions, Transit management has implemented manual daily reconciliation of data between CLASS and SPOS.

**Recommendations:**

i) To mitigate the City’s financial losses related to missing transactions due to SPOS device failures, Internal Audit recommends that Transit management continues to perform the daily reconciliation of data between CLASS and SPOS. Significant discrepancies should be investigated to ensure any necessary financial adjustments are obtained from Metrolinx.

ii) Transit management should consider obtaining more details and transparency from Metrolinx as to how it allocates such transactions across the service providers.
iii) Transit management should ensure that PRESTO presents a solution to resolve the missing transactions due to SPOS device failures, as part of the Service Agreement renewal negotiation.

Management’s Response:

<table>
<thead>
<tr>
<th>#</th>
<th>Department</th>
<th>Management Action Plan</th>
<th>Responsibility / Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.i</td>
<td>Public Services</td>
<td>Agree with the recommendation. Daily reconciliations will continue to be an essential part of our processes moving forward.</td>
<td>Transit Management Completed</td>
</tr>
<tr>
<td>2.ii</td>
<td>Public Services</td>
<td>Agree with the recommendation. Transit Management will re-engage Metrolinx and make best efforts to have Metrolinx provide more details and transparency around missing transaction allocations.</td>
<td>Transit Management December 31, 2017</td>
</tr>
<tr>
<td>2.iii</td>
<td>Public Services</td>
<td>Agree with the recommendation. During the renewal negotiations, Brampton has tabled missing transactions as an item requiring resolution.</td>
<td>Transit Management December 31, 2017</td>
</tr>
</tbody>
</table>

Observation 3: Lack of a Comprehensive Service Level Agreement (SLA)

The current service agreement with Metrolinx fails to define timelines related to repair and return of out of maintenance devices. Additionally, the SLA does not specify the vendor’s reporting requirements to the City in cases where PRESTO data has been uploaded directly into the Metrolinx system on behalf of the City.

All of the Transit PRESTO systems, software and communications equipment are managed by Accenture, a third-party vendor contracted by Metrolinx. Where the City experiences equipment failure through the out of maintenance program (i.e. repairs not covered under the warranty program), there is no agreement in place to ensure the vendor responds to the City’s repair request in a timely manner. Additionally, the current SLA does not obligate the vendor to complete the repair services within a specified timeframe.

Furthermore, upon receipt of the devices, the vendor manually uploads any data that may not have been transmitted to Metrolinx’s system previously (i.e. unflushed data). There is a lack of transparency as only devices with unflushed data are reported to the City, and the details of such transactions are not provided (i.e. number and value of the
transactions). As a result, the City is not able to verify the completeness or accuracy of the data that has been manually uploaded by the vendor.

A comprehensive SLA is essential in any significant service agreements as it defines the parameters for the delivery of service, and could prevent disputes in costs and timing of services between the parties. In the absence of a comprehensive SLA around out of maintenance repairs, delays in receipt of data can result in understated ridership and revenues until these transactions are uploaded.

**Recommendations:**

The City’s exposure to financial and operational risks can be mitigated by negotiating a comprehensive SLA in its upcoming service contract renewal with Metrolinx. Internal Audit recommends that Transit management incorporates the following items in the SLA:

i) Response time by Metrolinx (or its contracted vendor) upon receipt of the City’s reported case of equipment malfunction;

ii) A time limit within which the equipment will be repaired by;

iii) Listing of types of services and costs, along with the party responsible for each cost.

iv) Warranty coverage, including details of items that are included within the warranty period;

v) Details of unflushed data uploaded by the vendor (i.e. transaction number, dollar value, transaction date, etc.)

**Management’s Response:**

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<th>Department</th>
<th>Management Action Plan</th>
<th>Responsibility / Due Date</th>
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<tbody>
<tr>
<td>3.i</td>
<td>Public Services</td>
<td>Agree with the recommendation. During the renewal negotiations, Brampton has tabled SLAs as an item requiring significant discussion for inclusion in the new agreement with Metrolinx.</td>
<td>Transit Management</td>
</tr>
<tr>
<td>3.v</td>
<td>Public Services</td>
<td></td>
<td>December 31, 2017</td>
</tr>
</tbody>
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**Observation 4: Lack of System Interface Leads to Manual Keying Errors**

Due to the lack of interface between the City’s point-of-sale system (CLASS) and Metrolinx’s system (SPOS), every transit transaction must be manually inputted twice at point-of-sale – once in CLASS and a replica in SPOS.

Manual entries are inherently higher-risk due to potential keying errors. For the year 2015, Internal Audit quantified that approximately 45K (3%) of 1.4M transactions had keying errors related to the entry of PRESTO card’s serial number in the CLASS point-
of-sale system. Although there is no financial impact (as the sale amounts were inputted accurately), irreconcilable serial numbers could cause delays and/or disagreements between the parties, where investigations over disputed transactions are required.

**Recommendation:**

Transit management should co-ordinate with Metrolinx to ensure that PRESTO transactions from Metrolinx’s system can be interfaced with the City’s point-of-sale system to avoid multiple manual inputs.

**Management’s Response:**

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<tbody>
<tr>
<td>4.</td>
<td>Public Services</td>
<td>Agree with the recommendation. The current devices are not capable of this. Device replacement is being discussed as a major component of the renewal agreement. Enhancements and future capabilities are major focus points in this discussion. Timelines are not yet finalized with respect to which Transit Agencies will receive the devices first. PRESTO has indicated the latest end date for device replacement would be Q2 of 2019.</td>
<td>Transit Management June 30, 2019</td>
</tr>
</tbody>
</table>
Date: 2016-07-27

Subject: Liquor Inventory Management Audit Report

Contact: Gina Lee, Internal Auditor, Internal Audit Division, Office of the Chief Administrative Officer, 905-874-2427, gina.lee@brampton.ca

Recommendations:

1. That the report from Gina Lee, Internal Auditor, Internal Audit Division, dated July 27, 2016 to the Audit Committee meeting of September 13, 2016, re: Liquor Inventory Management Audit Report, be received.

Overview:

- Internal Audit conducted a review of the City of Brampton’s (City) liquor inventory management processes to assess the adequacy and effectiveness of internal controls in safeguarding liquor inventory, and also the accurate and timely recording of such inventory and cost of sales data in the point-of-sale system (i.e. CLASS).

- The audit was conducted for the period of January 1, 2015 to March 31, 2016.

- This audit was included in the 2015 Internal Audit Work Plan, and was approved by the Audit Committee.

- The audit was conducted in conformance with the Standards for the Professional Practice of Internal Auditing.

- Overall, management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of liquor inventory. Internal Audit identified the following opportunities for improvements:

  i) The Concessions Inventory Standard Operating Procedure and the Spoilage and Promotional Gestures Policy need to be updated to reflect actual processes and procedures followed by respective staff and management, and that these documents need to provide guidance on the timely recording of liquor inventory purchases.
ii) The City's point-of-sale system (i.e. CLASS) was not primarily designed to manage the complexities of physical inventory, especially liquor inventory. As a compensating control to ensure accurate and complete recording of the year end liquor inventory balance, spoilage and inventory count variances, Business Services Office (BSO) relies on manual reconciliations. Management should consider implementing an inventory management system as part of the CLASS replacement project.

**Background:**

The City of Brampton's over 25 facilities offer a variety of sports, events, activities and programs for all ages. The facilities offer various amenities, including concessions. Currently, five City facilities serve liquor, as follows:

i) Brampton Curling Club  
ii) Chinguacousy Curling and Tennis Facility  
iii) Rose Theatre  
iv) Peel Village Golf Course  
v) Chinguacousy Chalet

The types of liquor served at the facilities include beer, draft beer, wine, spirits and liqueurs. Total liquor sales for 2014 and 2015 were approximately $400K and $433K respectively. On average, the annualized gross profit for liquor sales was approximately 60%. The following chart summarizes the 2014 and 2015 liquor sales by location, as earned by the City:

![Liquor Sales by Location Chart]

Because the City's liquor business is seasonal as it is driven mainly by seasonal sports and special events, liquor quantities are ordered as required to meet the demands of such activities. As a result, the inventory on-hand at each of the locations at any given time during the year could be minimal if there were no scheduled events or the facility is closed for the season.
The Recreation and Culture supervisors and designated staff are responsible for purchases and sales of liquor. This includes preparing a Weekly Inventory Reporting Package (Package) containing support for purchases, sales, inventory count results and discrepancy analyses. The Package is submitted to BSO for their review and is used to calculate the spoilage and count variances. The variances are analyzed and communicated to Recreation and Culture management. The BSO provides support to the liquor operations at the facilities to ensure processes and procedures to safeguard inventory are being followed, and inventory is complete, accurate and exists. Additionally, the BSO performs periodic inventory counts at the facilities to verify the existence of the liquor inventory.

Audit Objectives and Scope

The period covered by this audit is January 1, 2015 to March 31, 2016. The objectives of this audit were to:

- Examine and evaluate the adequacy and effectiveness of internal controls related to liquor inventory management processes at the City;
- Evaluate compliance with established policies, procedures, By-Laws and legislation;
- Develop recommendations to assist management.

The scope of the audit included the assessments of:

- Processes and procedures to safeguard and prevent misappropriation of liquor inventory;
- Completeness, accuracy and existence of liquor inventory;
- Accurate, complete and timely recording of the liquor inventory balance in the point-of-sale (i.e. CLASS) system.

The above scope was applied to the following locations that serve liquor:

i) Brampton Curling Club
ii) Chinguacousy Curling and Tennis Facility
iii) Rose Theatre
iv) Peel Village Golf Course
v) Chinguacousy Chalet

The scope of the audit excluded the following:

- Cash handling processes and procedures and the accounting of liquor sales;
- Liquor sales and cost of sales processes and procedures;
- Liquor licence processes for the City’s facilities that sell and serve liquor;
- Liquor licence and permits processes for City-organized events and third-party rentals of the City’s facilities, where liquor is served;
- Third-party compliance with Special Occasion Permit requirements.
Current Situation:

Overall, management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of liquor inventory.

Internal Audit identified the following opportunities for improvements:

i) The Concessions Inventory Standard Operating Procedure and the Spoilage and Promotional Gestures Policy need to be updated to reflect actual processes and procedures followed by respective staff and management, and that these documents need to provide guidance on the timely recording of liquor inventory purchases. For instance, Recreation and Culture supervisors should ensure the weekly liquor inventory counts are consistently performed at all locations and that the count results are reviewed. Count variances should be explained by the respective staff and action plans need to be put in place to identify the root cause of the variances. For the audited period of 15 months, Internal Audit estimated that the count variance between CLASS and actual quantities on-hand was less than $1K (or 0.2% of total liquor sales for the same period). This difference is insignificant and indicates that processes and controls are generally effective. *(Refer to Appendix A, Observation 1 for further details)*

ii) The City’s point-of-sale system (i.e. CLASS) was not primarily designed to manage the complexities of physical inventory, especially liquor inventory. As a compensating control to ensure accurate and complete recording of the year end liquor inventory balance, spoilage and inventory count variances, Business Services Office (BSO) relies on manual reconciliations. Management should consider implementing an inventory management system as part of the CLASS replacement project. *(Refer to Appendix A, Observation 2 for further details)*

Corporate Implications:

Financial Implications:

Please refer to discussions under “Current Situation” above.

Other Implications:

Please refer to discussions under “Current Situation” above.

Strategic Plan:

This report achieves the Strategic Plan priority of “practise proactive, effective and responsible management of municipal assets and services.”
Conclusion:

Overall, management has adequate controls and procedures in place to ensure the accuracy, completeness and timely recording of liquor inventory. BSO and Recreation and Culture management should ensure that the Concessions Inventory Standard Operating Procedure and the Spoilage and Promotional Gestures Policy are consistently followed by Recreation and Culture supervisors and designated staff. In conjunction with the CLASS replacement project, Recreation and Culture and BSO management should consider implementing an inventory management system that is suitable for the liquor business operations.

Approved by:      Approved by:

Karen Liew, CPA, CA Gina Lee, CPA, CGA
Acting Director, Internal Audit Internal Auditor, Internal Audit

Attachments:

Appendix A: Liquor Inventory Management Audit – Detailed Observations

Appendix B: Closed Session Information – see Closed Session Agenda Item 10 re: The security of the property of the municipality or local board – Internal Audit review matter – Observation 3.

Report authored by: Gina Lee, CPA, CGA
Internal Auditor, Internal Audit
Observation 1: Non-Compliance to Standard Operating Procedure and Policy

The Concessions Inventory Standard Operating Procedure (SOP) and the Spoilage and Promotional Gestures Policy (Policy) were not consistently followed by Recreation and Culture supervisors and designated staff. Additionally, both of these documents contain processes and procedures that are no longer applicable, and therefore should be updated.

Policies and procedures should be reviewed and updated on a regular basis to reflect any necessary changes, as they define the staff’s roles and responsibilities. Additionally, the SOP and the Policy should be consistently followed by the Recreation and Culture supervisors and designated staff at all facilities that serve liquor. This will ensure consistencies in the management and reporting of liquor inventory, cost of sales, etc.

Specifically, Internal Audit identified the following instances where either the SOP or the Policy was not consistently followed:

i) Weekly liquor inventory counts were not always performed, as required per the SOP. Additionally, the Weekly Inventory Reporting Package (Package) was not consistently reviewed and submitted on a timely basis to the BSO. For the samples tested by Internal Audit, two of the five locations did not complete the respective inventory count on a timely basis. All five of the locations did not submit the Package within four business days from the count date, as required by the SOP. Furthermore, not all of the Packages tested had evidence of Recreation and Culture Supervisor’s review. BSO management advised us that they are aware of these three issues, and have been following-up with Recreation and Culture management as they occur. Timely inventory counts and management’s review of count results provide more effective oversight of inventory.

ii) In cases where inventory counts were performed, count variances between CLASS and actual inventory on-hand were not explained by some of the Recreation and Culture supervisors and designated staff. Furthermore, no action plans were provided to either investigate such differences or prevent similar occurrences. For the audited period of 15 months, Internal Audit estimated that the liquor inventory count variance between CLASS and actual quantities on-hand was less than $1K (or 0.2% of total liquor sales for the same period). There could be multiple reasons for the variance, including: CLASS system deficiency (refer to Observation 2 below), count errors, potential misappropriation of liquor inventory, etc. To minimize count
variances, Recreation and Culture supervisors and designated staff should provide explanations and action plans to identify the root cause of the variances.

iii) Both the SOP and Policy indicate that Recreation and Culture supervisors should prepare the Monthly Exception Analysis when count and spoilage variances exceed allowable limits per the SOP and Policy. However, Internal Audit observed that this procedure was not performed. BSO management advised us that this procedure is not applicable and has been replaced with different processes (i.e. weekly and monthly analyses). The SOP should be updated to reflect actual processes and the accountable parties for completing such processes.

iv) The current SOP and Policy are silent on the timely recording of liquor inventory purchases in CLASS. Purchases should be inputted in CLASS on a timely basis (i.e. prior to the weekly inventory count) to avoid unnecessary count variances. The SOP should include a requirement for Recreation and Culture staff to input inventory purchases prior to the weekly counts.

Recommendations:

i) Recreation and Culture supervisors should ensure that weekly liquor inventory counts are completed. Additionally, the Weekly Inventory Reporting Package should be reviewed by them and submitted on a timely basis to the BSO for their review.

ii) Recreation and Culture supervisors should provide explanations and action plans to identify the root cause of all count variances. Where explanations and/or action plans have not been provided by them, BSO and Recreation and Culture management should follow-up by performing daily inventory counts at the respective facility until the issue is resolved.

iii) BSO management should update the SOP and Policy to include actual processes and procedures, and also the accountable parties for completing such processes.

iv) BSO management should update the SOP to include a requirement for Recreation and Culture designated staff to input inventory purchases prior to the weekly counts.
Management Action Plans:

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<tr>
<td>i)</td>
<td>Public Services</td>
<td>Agree with recommendation: BSO and Recreation and Culture Management will advise Recreation and Culture supervisors that weekly liquor inventory counts are to be completed and the Weekly Inventory Reporting Packages are to be reviewed and submitted on a timely basis to the BSO.</td>
<td>BSO, Recreation and Culture Management September 30, 2016</td>
</tr>
<tr>
<td>ii)</td>
<td>Public Services</td>
<td>Agree with recommendation: BSO and Recreation and Culture Management will advise Recreation and Culture supervisors of the requirement for explanations and action plans to identify the root cause of all count variances.</td>
<td>BSO, Recreation and Culture Management September 30, 2016</td>
</tr>
<tr>
<td>iii)</td>
<td>Public Services</td>
<td>Agree with recommendation: BSO management will update the SOP and Policy to include actual processes and procedures, and also the accountable parties for completing such processes.</td>
<td>BSO March 31, 2017</td>
</tr>
<tr>
<td>iv)</td>
<td>Public Services</td>
<td>Agree with recommendation: BSO management will update the SOP to include a requirement for Recreation and Culture designated staff to input inventory purchases prior to the weekly counts.</td>
<td>BSO March 31, 2017</td>
</tr>
</tbody>
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Observation 2: CLASS System Not Suitable for Liquor Inventory Management

The City’s point-of-sale system (i.e. CLASS) was not primarily designed to manage the complexities of physical inventory, especially liquor inventory. As a compensating control to ensure accurate and complete recording of the year end liquor inventory balance, spoilage and inventory count variances, BSO relies on manual reconciliations.

Liquor inventory purchases are recorded in CLASS upon receipt from vendors. This inventory is reduced in CLASS when sales occur. However, because CLASS is not capable of recording actual unit of measurement for liquor inventory (i.e. in liquid ounces), management is forced to input liquor inventory in whole sellable units. For instance, to record a standard bottle of wine (27 ounces) as inventory, management
would either input 4 or 5 whole sellable units into CLASS. This is because each glass (i.e. unit) sold represents approximately 6 ounces, and partial units are not accepted by CLASS. As a result, both the inventory balance and cost of sales data are not accurate.

To compensate for the lack of system functionality, BSO management uses Excel spreadsheets to determine pertinent information, including a more accurate year end liquor inventory balance, spoilage and inventory count variances. Additionally, management relies on such Excel spreadsheets for reporting purposes. Although Excel spreadsheets may be a practical solution, there is a risk in placing reliance on manual spreadsheets for inventory and cost management. This is because manual spreadsheets lack audit trails and data security compared to an inventory system. Additionally, real-time reporting of actual liquor inventory on-hand and cost of sales data is not possible until the manual spreadsheets have been updated.

For the audited period of 15 months, Internal Audit estimated that total liquor inventory count and spoilage variances between CLASS and actual quantities on-hand was only approximately $4.7K (or 0.8% of total liquor sales for the same period). As the variance is insignificant, replacing CLASS with a more appropriate inventory management system may not be a feasible investment for the City. Additionally, total liquor sales in 2015 represented approximately 0.05% of the City’s consolidated revenue.

**Recommendation:**

As part of the CLASS replacement project, Recreation and Culture and BSO management should consider incorporating an inventory management system that is suitable for the liquor business operations.

**Management Action Plan:**

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<tr>
<td>i)</td>
<td>Public Services</td>
<td>Agree with recommendation: BSO and Recreation and Culture Management have included in RFP2016-004 (Supply &amp; Installation of a Recreation Enterprise System) an inventory management system requirement.</td>
<td>BSO, Recreation and Culture Management Complete. RRF2016-004 was released July 19, 2016.</td>
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</tbody>
</table>