



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

**Toronto Community Housing Corporation
Fleet Management – Lack of Central Oversight Has Led
to Control Deficiencies**

Date:	February 6, 2012
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reason for Confidential Information:	Reasons for confidentiality <ol style="list-style-type: none">1. This report deals with personal matters about an identifiable person.2. This report is about litigation or potential litigation that affects the Toronto Community Housing Corporation.
Reference Number:	

SUMMARY

Attached is the Auditor General's report entitled "Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies". This review was conducted as part of the Auditor General's 2011 Audit Work Plan.

The objective of this review was to assess the extent to which Toronto Community Housing Corporation's (TCHC) fleet activities are managed efficiently and effectively with due regard for value for money and to ensure that the management and use of the fleet is in compliance with policies and procedures.

Our review identified a general lack of basic internal and management controls which for the most part was due to the absence of any central oversight by senior management.

The attached report contains eight recommendations along with a management response to each of the recommendations.

In addition, also included in the report is a confidential attachment which contains one further recommendation which requires the consideration of the Board.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.
2. The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation's fleet requirements is completed. This re evaluation should be conducted in consultation with the City's Fleet Services Division and should require business cases in support of each current vehicle.
3. The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.
4. The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.
5. The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.
6. The Chief Executive Officer in consultation with the City's Deputy City Manager and Chief Financial Officer give consideration to adopting the City's funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.
7. The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled "Expense Reimbursement – Mileage and Parking" be finalized as soon as possible. Management responses should be included with the report with specific dates for

implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.

8. The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City's. Further, the Executive Director review all "high mileage employees" in order to ensure that vehicle reimbursements are cost-effective.
9. The Board of Directors of the Toronto Community Housing Corporation adopt the recommendation contained in Attachment 1 – Confidential Information attached to this report.
10. The Board of Directors of the Toronto Community Housing Corporation authorize the public release of the information contained in the Attachment 1 – Confidential Information to this report at the discretion of the Chief Executive Officer in consultation with legal counsel.
11. This report be forwarded to the City's Executive Committee for information.

Financial Impact

The implementation of recommendations in this report will provide opportunities for cost savings and efficiencies. In addition, certain recommendations if implemented will address internal control weaknesses. Further, the extent of potential cost savings resulting from implementing the recommendations in this report are not determinable at this time.

COMMENTS

The Auditor General issued two reports in 2011 entitled:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

As a result of the internal control weaknesses identified during these two reviews, it was determined that additional audits of various TCHC operations would be conducted during the balance of 2011.

An audit of the fleet operations at TCHC was selected for further review.

The attached report entitled "Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies" represents the results of our review. In addition, the report includes a confidential attachment which requires the attention of the Board.

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SIGNATURE

Jeff Griffiths, Auditor General

11-TCH-03

ATTACHMENTS

Attachment 1 – Confidential Information:

Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

Appendix 1: Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

Appendix 2: Management's Response to the Auditor General's Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies

APPENDIX 1

Toronto Community Housing Corporation
Fleet Management – Lack of Central Oversight
Has Led to Control Deficiencies

December 9, 2011



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

***The City is
TCHC's sole
shareholder***

The Toronto Community Housing Corporation (TCHC) is Canada's largest social housing provider. The City is TCHC's sole shareholder.

City Council, at its February 2007 meeting, designated the Auditor General to be the City's representative under the Shareholder Direction for TCHC and its subsidiary companies, such representative to be permitted full access to the Corporation's records for audit purposes.

This report is one of a series of reports on the operations of TCHC. Previous reports issued during 2011 were:

- Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed
- Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

***2011 Audit Work
Plan identified
fleet as a potential
audit***

During the audit of both of the above, we identified various issues pertaining to the operations of the TCHC fleet particularly the reimbursement of mileage expenses. Consequently, as part of the 2011 audit work plan we identified the audit of fleet as a priority.

It was our view that based on an initial assessment of TCHC's management of its fleet, there were opportunities for cost savings as well as the potential of addressing internal control weaknesses. In addition, we were concerned with the findings of two TCHC internal audit reports one of which remains in draft, which identified systemic issues in the way the fleet was being managed.

***No central
management***

Both internal audit reports contain information on specific and individual issues but do not address the major overlying reason for many of the management deficiencies identified in this particular report. Very simply there is no central management oversight over TCHC's fleet.

One of the TCHC audit reports states that:

“It is unclear

- *Who has the overall authority to ensure the continued optimization of fleet services and to provide functional guidance and support for operations; and*
- *Who is responsible for the administrative control of the acquisition, operation, maintenance, disposal and replacement of fleet vehicles.”*

*No
recommendation
made to address
fundamental issue*

While we acknowledge that internal audit staff identified the lack of central oversight as a concern, no further action was taken. Moreover, audit staff did not make a recommendation to address what in fact is the major reason for the majority of internal control deficiencies.

Of significant concern and somewhat disconcerting is a recommendation in the internal audit report entitled “Fleet Management” that the TCHC should “implement a new open tender for fleet lease and fleet management.”

This recommendation is contradictory to the Auditor General’s 2011 report on procurement which recommended that:

*Auditor General’s
previous
recommendation*

“The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings”.

This recommendation was also agreed to by the previous Board of TCHC.

Cost savings likely

It is our view that if the operation of the fleet at TCHC was coordinated and consolidated with the City there would likely be cost savings. We have discussed this matter with the Director of Fleet Services at the City who is of the view that the fleet of TCHC and its subsidiary company Housing Services Inc. (HSI) could be easily absorbed into the City’s existing fleet operations.

As an aside and to illustrate the potential cost savings available from the consolidation of various functions within the City, TCHC is currently testing a “pilot” centralized purchasing model with the City. In a presentation to their Board, TCHC staff indicated that the “estimated annual savings enterprise wide is \$5 to \$7 million.”

Savings of \$5 to \$7 million is an estimate

This amount is very much an estimate and at the moment it is not possible to accurately quantify the savings. However, in view of the potential cost savings, we have been advised that other pilot projects will take place on an enterprise wide basis.

Prior to any decision to consolidate the fleet of TCHC and its subsidiary company HSI with the City, the recommendations in this current report need to be addressed. In this context, we suggest that the implementation of the recommendations be considered in consultation with the City’s Director of Fleet Operations.

The recommendations in this audit report centre around basic internal controls, best practices and the need for an appropriate level of management oversight.

Management of fleet is decentralized

For the most part the management of the fleet at TCHC is decentralized with management at individual operating units responsible for all fleet related decisions including vehicle acquisitions, disposals, maintenance and general administration. Certain managers have taken the initiative to establish their own internal controls but these practices are inconsistent throughout the organization. In addition, decisions relating to acquisitions and disposals are made by operating units in isolation from each other.

Control weaknesses identified in this report

Additional information relating to internal control weaknesses is contained in this audit report. Certain of these issues were identified in the internal audit reports. In summary the areas that need to be addressed are as follows:

- There is no complete and accurate inventory of vehicles. Based on the information we have been able to obtain TCHC operates approximately 120 vehicles. While we have not conducted any audit work on the fleet at TCHC’s subsidiary company HSI, we understand that HSI operates with a further 85 vehicles.

- TCHC has not conducted any needs analysis to determine how many vehicles are required to operate effectively.
- Documentation to support the value of the fleet is incomplete. Based on our analysis we have determined that the total investment in TCHC's existing fleet is approximately \$3.3 million.
- There is a need to defer all acquisitions and disposals of vehicles until the recommendations in this report are addressed.
- Responsibilities for the management of the fleet needs to be clearly defined particularly in the context of closer coordination with the City.
- We were not able to locate a contract with Automotive Resources International (ARI), the fleet management company responsible for certain aspects of TCHC's fleet.
- Payments are being made to ARI without the benefit of a contract. Consequently, it is not possible to determine if payments are appropriate.
- There is a need to establish a funding model for future fleet acquisitions.
- Controls are lacking regarding employee vehicle expense reimbursements.
- Controls are lacking in the area of fleet utilization. We have identified a number of cases where vehicles are underutilized.
- Fleet operations at TCHC and HSI should not occur in isolation from each other.

Changes are underway in relation to fleet management

We appreciate that changes are underway in relation to the day to day management of the fleet. What is disconcerting however is that changes are only taking place in response to audit work by the Auditor General's Office. The management control weaknesses identified have likely been in existence for many years and are only now being addressed. In this context, prior years potential cost savings have not been realized.

The changes being proposed by management in regard to fleet operations are “band aid” solutions to a much more systemic problem. In our view, the easiest, quickest and most cost-effective solution to the concerns identified in this report is to solicit the assistance of professional fleet managers. This expertise is available at the City of Toronto.

Management needs to be held accountable

Assigning clear, direct and specific responsibilities to management and holding management accountable for their actions should be the first step in addressing the issues identified in this report.

Internal control weaknesses are being addressed throughout the Corporation

Finally, we do recognize that ongoing changes at TCHC are taking place in regard to addressing internal control deficiencies previously identified. These changes include:

- The appointment of a Senior Director of Strategic Procurement, a new position, to provide procurement leadership across the enterprise
- A revision of its Directives for expenses, purchasing cards, cash advances, and its policies and procedures for procurement
- The creation of a Fraud Prevention Directive, and the launch of a Do What’s Right hotline – first for staff, and then for tenants starting January 1, 2012.

The implementation of the recommendations in this report should be an immediate priority for TCHC management.

BACKGROUND

The Toronto Community Housing Corporation (TCHC) is Canada’s largest social housing provider. The City of Toronto is TCHC’s sole shareholder.

The fleet at TCHC consists of approximately 120 vehicles

In order to assist in the effective administration of these various programs, TCHC operates a fleet of approximately 120 vehicles, consisting of cars, vans, and trucks. Its wholly owned subsidiary company, Housing Services Inc. (HSI), operates an additional 85 vehicles. The operation and management of both fleets are independent from each other.

TCHC's investment in its fleet is approximately \$3.3 million

Based on the information available, we estimate that TCHC's capital investment in vehicles is approximately \$3.3 million.

TCHC's 2011 fleet operating budget, along with the 2010 actual expenditures are as follows:

Table 1: TCHC Fleet Related Expenditures

Account	2011 Budgeted	2010 Actual
Repairs & Fuel	\$792,000	\$505,000
Rental/Leasing	\$229,000	\$46,000
Vehicle Purchases	\$105,000	\$351,000
Staff Mileage and Parking	\$433,000	\$418,000
Total	\$1,559,000	\$1,320,000

Vehicles are used for a variety of reasons

TCHC vehicles are used for a variety of purposes including:

- Security patrols by special constables and parking enforcement staff;
- Transporting equipment needed for the repair and maintenance of tenant units;
- Transporting equipment needed for daily grounds keeping and maintenance activities;
- Moving appliances to and from tenant units; and
- Delivery of internal mail.

TCHC is managed through 13 separate operating units across the City. Administratively, TCHC has a head office function which operates out of 931 Yonge Street.

Fleet management is decentralized

Fleet management responsibility within TCHC is decentralized. Management at individual operating units are responsible for all decisions related to vehicle acquisitions, maintenance and disposal of their designated vehicles.

TCHC uses a third party to assist in the management of its fleet

TCHC currently uses a third-party provider, Automotive Resources International (ARI) to provide a variety of fleet related services including but not limited to:

- Provision of credit cards for processing fuel and maintenance charges;
- Provision of management information reports pertaining to vehicle financial performance, odometer readings and repair history;
- Vehicle acquisitions and disposals; and
- Fleet planning including vehicle performance evaluations.

The services available from ARI are not being fully utilized.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Two separate audit reports issued

The Auditor General's 2010 and 2011 Audit Work Plans included a review of various areas within the Toronto Community Housing Corporation. Two separate reports were issued in early 2011 entitled:

- "Procurement Policies and Procedures Are Not Being Followed"
- "Controls Over Employee Expenses Are Ineffective"

Why we conducted this review?

As a result of the issues identified in both reports, it was determined in 2011 that the Auditor General should conduct further work at the TCHC. The work previously conducted on employee expenses identified issues related to vehicle and mileage expenses and as a result it was determined that the Auditor General should review the management of TCHC's fleet including fleet related expenses.

Audit objectives

The objective of this review was to assess the extent to which TCHC's fleet activities are managed efficiently and effectively with due regard for value for money and to ensure that the management and use of the fleet is in compliance with policies and procedures.

This audit covered the period from January 1, 2010 to May 31, 2011.

Audit methodology

Our audit methodology included the following:

- Review of previous City Fleet Services audit reports
- Interviews with various TCHC staff
- Interviews with ARI staff and management
- Review of various TCHC management reports and documents
- Review of an audit report issued by TCHC's Compliance and Ethics Unit entitled "Fleet Management" dated May 31, 2011, with a management response dated August 16, 2011. This was tabled with TCHC's Corporate Affairs and Audit Committee in November 2011.
- Review of a draft audit report prepared by TCHC's Compliance and Ethics Unit entitled "Expense Reimbursement – Mileage and Parking" dated December 15 2010. We understand that this report remains in draft and has not been finalized and consequently has not been formally issued.
- Review of various audit reports from other jurisdictions including the following:

***Fleet reports
pertaining to other
jurisdictions
reviewed***

- City of Ottawa 2010 report "*Audit of the Use of City Vehicles and Mileage*"
- City of Calgary 2006 report "*M4 System Audit – Fleet Services*"
- City of Winnipeg 2010 report "*Winnipeg Fleet Management Performance Audit*"
- City of Atlanta 2011 report "*Performance Audit: Department of Public Works Fleet Services Inventory Controls*"
- City of Palo Alto 2010 report "*Audit of Fleet Utilization and Replacement*"
- Industry Canada 2009 report "*Fleet Management*"
- Canada Border Service Agency 2009 report "*Evaluation of the Relevance and Operation of the CBSA Fleet*"

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

The Management of TCHC's Fleet Requires Significant Improvement

Audit report on fleet management issued by TCHC

The TCHC Compliance and Ethics Unit recently issued an audit report entitled "Fleet Management." The report is dated May 31, 2011 with "Managements Response" dated August 16, 2011. We understand that this report has been tabled at the Corporate Affairs and Audit Committee.

TCHC report made a number of recommendations but did not identify cause of the problems

While the TCHC Audit Report outlines a number of recommendations including the need to develop policies, conduct an inventory count of vehicles and implement a tender process for a fleet management company, it does not identify the major reason for the lack of basic internal and management controls which for the most part is due to the absence of any central management oversight by senior management. We do acknowledge that while the audit report does allude to this matter, there is no recommendation in the report to address the issue.

We have reviewed and discussed the Compliance and Ethics Audit Report with the Chief Executive Officer and generally concur with most of its contents. The Compliance and Ethics Report identified certain deficiencies at a fairly detailed level but did not address high level governance, management and strategic corporate wide issues which have been a common theme throughout previous Auditor General's reports.

TCHC uses a third party to assist in the management of its fleet

TCHC currently uses a third-party provider, Automotive Resources International (ARI), to assist in the management of its fleet. ARI offers a variety of fleet related services including but not limited to:

- Provision of credit cards for processing fuel and maintenance charges;
- Provision of management information reports pertaining to vehicle financial performance, odometer readings and repair history;
- Vehicle acquisitions and disposals; and
- Fleet planning including vehicle performance evaluations.

There is no accurate inventory of TCHC fleet

Many fleet related management reports and records available from the ARI management information system are not accessed by TCHC staff and as a result, it is difficult to assess many different operating components of the fleet. As an example it has been extremely difficult to verify the number of vehicles either owned or leased in TCHC's fleet due to the fact that an accurate inventory of vehicles does not exist. Even at this point we are not in a position to accurately confirm the number of vehicles in the fleet. We estimate that the fleet currently consists of approximately 120 vehicles.

No record of TCHC's capital investment in its fleet

Likewise TCHC's total capital investment in its fleet as outlined in this current report is based on information compiled by the Auditor General's Office. This information is not readily available at the TCHC. We estimate the total capital investment in TCHC's existing fleet to be in the range of \$3.3 million.

We have provided management with details of our estimates. Management, we understand concurs with our estimates of the value of the fleet.

One of the Recommendations in the Compliance and Ethics Fleet Report Requires Reconsideration

One of the recommendations contained in the Compliance and Ethics report requires reconsideration

One of the recommendations contained in the Compliance and Ethics audit report states that TCHC should “implement a new open tender for fleet lease and fleet management”. We disagree with this particular recommendation, especially in the context of previous Auditor General’s reports.

In view of previous audit reports issued both at the TCHC and the City, we find it somewhat disconcerting that such a recommendation would be made especially in view of potential cost savings which are possible through the consolidation of various functions with the City.

The following comments and recommendations were made in the Auditor General’s 2011 Report on Procurement Policies and Procedures at the TCHC.

Closer coordination with the City would provide benefits

“While the focus of this report has been on the procurement process at the TCHC, it is clear that there are a number of other areas at the TCHC which would likely benefit from closer coordination and cooperation with the City. These areas include:

- *Information technology*
- *Human resources*
- *Policy Development*
- *Compliance and Ethics*
- *Fleet Management*

There is little point in ‘reinventing the wheel’ if certain policies and processes already exist at the City.”

Recommendation made in earlier audit report

The recommendation made in the audit report in relation to these comments was:

“The Chief Executive Officer in consultation with the City Manager review areas where opportunities exist to consolidate or coordinate operations at the TCHC and the City in order to achieve cost savings.”

In our view, fleet management is an obvious function which readily lends itself to consolidation with the City.

Consolidation of other functions have led to considerable savings

To illustrate the potential savings available from the consolidation of various functions within the City and TCHC, TCHC is currently testing a “pilot” centralized purchasing model with the City of Toronto. In a presentation to their Board, TCHC staff indicated that the “estimated annual savings enterprise-wide is \$5 to \$7 million.”

This amount is very much an estimate and at the moment it is not possible to accurately quantify the savings. In view of the potential cost savings, we understand that other pilot projects will take place on an enterprise wide basis.

Prior to any decision to consolidate the fleet of TCHC and its subsidiary company HSI with the City, the recommendations in this current report need to be addressed. In this context, we suggest that the implementation of the recommendations be considered in consultation with the City’s Director of Fleet Operations.

While we are not in a position to quantify cost savings relating to the consolidation of fleet operations cost savings are likely.

TCHC Should Consider the Transfer of the Management of its Fleet to the City

In September 2011, in a confidential report entitled “City of Toronto – Fleet Services, Service Efficiency Review”, prepared by an external consultant, opportunities for savings through the consolidation of various fleet operations throughout the City were identified. The report focussed on City Divisions and the major ABCs. While not specifically articulated in the report, opportunities for cost savings also exist for TCHC and its subsidiary company HSI.

Auditor General has discussed this issue with City’s Director of Fleet Services

We have met with the Director of Fleet Services at the City to discuss in general terms whether or not the City has the capacity to centrally manage both the TCHC and the HSI fleet. We have been advised that the addition of approximately 120 vehicles from TCHC and 85 vehicles from HSI could be easily absorbed into fleet services existing operations.

Cost savings likely exist

It is likely that there are potential cost saving opportunities in terms of vehicle acquisitions, vehicle disposals, fuel purchases, as well as maintenance and warranty costs. In addition, the management of TCHC's fleet at the City will be conducted by professional fleet managers who have access to similar management information reports which are available from ARI. Consequently, we have suggested to the Chief Executive Officer at the TCHC that the "tender for fleet lease and management" should be deferred until this report is considered. It is our understanding that he has agreed to do this.

Prior to any transfer to the City recommendations should be implemented

Finally, prior to any potential transfer of responsibilities to the City, significant work is required to ensure that information submitted to the City is accurate and complete. Consequently, it is important that the balance of recommendations in this report are addressed prior to any transfer of responsibilities to the City.

Recommendation:

- 1. The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.**

All Fleet Acquisitions and Disposals Should Be Discontinued Until an Evaluation of Fleet Requirements is Completed

Central oversight and management controls do not exist

Many of the issues raised in this report are due to the absence of any central oversight in regard to fleet management.

As previously indicated, management at individual operating units are responsible for all fleet related decisions including vehicle acquisitions, disposals, maintenance and general administration. To be clear, there are certain managers who have taken the initiative to establish their own internal controls but these practices have been inconsistent throughout the organization.

Due to the decentralized manner in which the fleet is managed, there is no central plan or evaluation in terms of how many vehicles are required at the TCHC and consequently, the basis for the current allocation of vehicles to each of TCHC's operating units is unclear. It appears as if individual operating units acquire vehicles on the basis of budget funds available rather than any overall assessment of TCHC corporate-wide needs.

Business cases are not prepared

Business cases do not exist to support vehicle acquisitions. In addition, it is possible that operating units either purchase or lease a vehicle while at the same time underutilized or idle vehicles may be available elsewhere.

We have also identified vehicles which have been sitting idle for a period of time even where TCHC pays significant mileage claims for employees operating their own personal vehicles.

Acquisition and disposal of vehicles should be discontinued until changes have been made

Any acquisition and disposal of vehicles should be immediately discontinued until an evaluation is conducted of vehicle requirements and the management of the TCHC fleet is evaluated and proper policies and procedures initiated.

Recommendation:

- 2. The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation's fleet requirements is completed. This re evaluation should be conducted in consultation with the City's Fleet Services Division and should require business cases in support of each current vehicle.**

There is a Lack of Clarity in Terms of Who is Responsible for Fleet Management

Management responsibilities not defined

CFO responsible for fleet operations

Responsibility of the fleet throughout TCHC has been assigned to a Project Manager/Supervisor in the Records Management and Office Services Unit at Head Office who reports to the Controller. This responsibility was formally transferred to this position by the former Chief Financial Officer in 2009 who is the individual ultimately accountable for TCHC's fleet. However, the extent of the Project Manager's authority and responsibility is vague and not clearly defined. While there is a job description for this position it makes no reference to any responsibility relating to TCHC's fleet. We have been advised that a revised job description is currently in process which will reflect specific responsibilities relating to fleet.

Indicative of the lack of an effective management structure is the fact that we were not able to locate the contract with ARI even though payments are being made to ARI for fleet management services. In addition there was no one at TCHC who is aware of the reporting capabilities of ARI even though TCHC is paying for this function.

Overall responsibility has to be assigned

In the event that fleet related responsibilities are transferred to the City, there will still be a requirement for someone at the TCHC to assume overall responsibility for the fleet and, in particular, be in a position to review, evaluate and act on management information provided by the City.

Recommendations:

- 3. The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.**

- 4. The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.**

Information Relating to the Fleet Inventory Has Been Difficult to Compile

Information on the fleet inventory has been difficult to compile

Based on the information we have been able to compile, TCHC operates approximately 120 vehicles which consists of a wide variety of vehicle makes and models. There is no formal inventory of vehicles available although we have been able to compile a listing of vehicles based on various information provided to us. The inventory list consists of vehicles owned by the TCHC as well as vehicles currently operating under lease agreements.

Prior to any transfer of fleet responsibilities to City Fleet Services, as a first step TCHC should prepare a complete and accurate listing of all vehicles owned or leased by the Company along with its location, age and mileage. Such a listing should form the basis of future acquisitions and disposals.

Recommendation:

- 5. The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.**

A Funding Model for Fleet Acquisitions Needs to Be Developed

No funding model for fleet acquisitions

There is no predetermined funding model available for fleet acquisitions. As previously indicated, decisions for vehicle acquisitions are currently being made by individual operating units based on the availability of budget funds. Certain operating units who have funds available are able to purchase vehicles. In other units because of the lack of funds, purchases are deferred or made through lease agreements or in certain cases used vehicles are purchased.

The acquisition of vehicles through lease agreements or the purchase of used vehicles may not be the most cost effective method of acquisition particularly in the long run. Acquisition of leased vehicles are made because of the availability of financial resources with no thought given to long term costs.

City Divisions including the Toronto Police Service make annual budgeted contributions to a vehicle acquisition reserve fund maintained by the City. These funds are accounted for and segregated by the Divisions who make the contributions. Vehicle acquisitions are funded out of these reserve funds.

Recommendation:

- 6. The Chief Executive Officer in consultation with the City's Deputy City Manager and Chief Financial Officer give consideration to adopting the City's funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.**

Controls are Lacking Regarding Employee Vehicle Expense Reimbursements

Draft audit report not issued

The Compliance and Ethics Unit issued a draft audit report to management entitled “Expense Reimbursement – Mileage and Parking” dated December 15, 2010. It is our understanding that this report has not yet been finalized due to concerns about the accuracy of certain of its content.

While the draft report may contain inaccuracies relating to individual instances of mileage claims, the overall message contained in the draft report is disconcerting and requires immediate attention.

Issues of concern identified

Of concern are the following general comments in the draft report:

- A number of employees have received significant annual mileage reimbursement which would question whether or not it would be less expensive to provide these individuals with a vehicle.
- Mileage claims were submitted more than once.
- Documentation supporting reimbursement of expenses has not always been provided.
- Reimbursements have been made without supervisory approval.
- Policies where they do exist are not being complied with.
- Little or no analysis is conducted to determine the appropriateness of fuel usage.

Internal control deficiencies should have been identified and addressed

While we have not verified the concerns identified, these particular issues are basic and fundamental internal control deficiencies. Even a high level supervisory review would have identified many of the issues noted. Further, in cases where employees have received reimbursements to which they were not entitled, recoveries should be pursued.

Finally, the draft internal audit report should be finalized as soon as possible and issued to the Corporate Affairs and Audit Committee for further action.

Recommendations:

- 7. The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled “Expense Reimbursement – Mileage and Parking” be finalized as soon as possible. Management responses should be included with the report with specific dates for implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.**
- 8. The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City’s. Further, the Executive Director review all “high mileage employees” in order to ensure that vehicle reimbursements are cost-effective.**

CONCLUSION

This report contains eight recommendations and presents the results of our review of fleet operations at the TCHC.

While TCHC has initiated certain changes in the way it manages its fleet, it needs to evaluate whether or not the fleet operations would be better served if assumed by the City. Currently, the fleet is not being managed and the expertise to professionally manage the fleet does not exist at the TCHC. Fleet management is not a core business of the organization and, as such, a transfer of these responsibilities to the City is an option which requires serious consideration. In our view, the transfer of responsibilities would reduce costs in a number of fleet related areas.

**Management’s Response to the Auditor General’s Review of
Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
1.	The Chief Executive Officer, in consultation with the City Manager, evaluate the advantages of transferring the central management of the fleet operations at both Toronto Community Housing Corporation and Housing Services Inc. to the City. Prior to any transfer taking place the recommendations contained in this report be addressed.	X		<p>On June 13, 2011 the Managing Director approved the initial TCHC internal audit findings which included the recommendation that TCHC consult with the City regarding opportunities to leverage resources with the City such as policy and practices and buying power.</p> <p>This underlying principle was carried forward in the final version of the Internal Audit report tabled at the Corporate Affairs and Audit Committee in November 2011.</p>	<p>Action: A meeting between TCH Senior Procurement Manager and the City’s Fleet Director was held on January 23, 2012 to start the process of evaluating the advantages of transferring fleet operations to the City. The evaluation process will be completed by Q212.</p> <p>Timeline: Q212</p>
2.	The Chief Executive Officer immediately discontinue all fleet acquisitions and disposals until a complete re evaluation of Toronto Community Housing Corporation’s fleet requirements is completed. This re evaluation should be conducted in consultation with the City’s Fleet Services Division and should require business cases in support of each current vehicle.	X		<p>Acquisitions and disposals of TCHC vehicles have been discontinued pending the results of the evaluation. TCHC will, however, dispose of vehicles deemed (i) unsafe and (ii) uneconomical to repair if encountered during the evaluation period.</p>	<p>Action 1: A directive has been issued to all managers that acquisition and disposal of vehicles are not permitted without executive approval pending the re-evaluation of TCH’s fleet requirements.</p> <p>Action 2: A work plan will be developed to re-evaluate the Company’s fleet requirements. The re-evaluation process will (i) be conducted in consultation with the City’s Fleet Services Division and (ii) require a business case in support of each current vehicle.</p> <p>Timeline: Q212</p>

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<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
					<p>Action 3: Subsequent to the re-evaluation of the Company’s fleet requirements the CEO will communicate to Company and its subsidiary employees the revised fleet policies and procedures. Timeline: Q212</p>
3.	<p>The Chief Executive Officer articulate and document the specific fleet related roles and responsibilities of the individual assigned responsibility for the fleet. The roles and responsibilities be clearly defined in a formal position description. Any position description take into account the recommendations contained in this report particularly the potential transfer of fleet responsibilities to the City of Toronto.</p>	X			<p>Action: The roles and responsibilities of the position to be responsible for centrally managing fleet operations will reflect the (i) outcome of the re-evaluation of the administration of the Company’s fleet operations and (ii) recommendations contained in this report. Timeline: Q212</p>

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<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
4.	The Chief Executive Officer, in consultation with the City Manager and the City's Director of Fleet Services, ensure that the management of the Toronto Community Housing Corporation fleet is assigned specifically to one individual who has the appropriate level of fleet management expertise and experience.	X			Action 1: The individual assigned to centrally manage the Company's fleet operations will have the appropriate level of fleet management expertise and experience, taking into consideration the outcome of the re-evaluation of the administration of the Company's fleet operations. Timeline: Q212
5.	The Chief Executive Officer be required to prepare an inventory of all vehicles currently owned or leased by Toronto Community Housing Corporation. The inventory should include details pertaining to the actual capital cost, the make and model of the vehicle, the age of the vehicle, its location, its utilization and its mileage. This inventory should form the basis of information to be transferred to the City of Toronto for the potential transfer of fleet responsibilities.	X			Action: The inventory of Company vehicles, reconciled to ARI records, will be completed by January 31, 2012. Timeline: Q112

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<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
6.	The Chief Executive Officer in consultation with the City’s Deputy City Manager and Chief Financial Officer give consideration to adopting the City’s funding model for vehicle acquisitions. Regular financial contributions be made to a vehicle replacement reserve fund maintained by the City for the benefit of the Toronto Community Housing Corporation.	X		We agree with the recommendation of creating, and making regular financial contributions to, a vehicle replacement reserve fund. This fund will be maintained either the Company or by the City.	<p>Action: The adoption of the City’s funding model for vehicle acquisitions and maintenance will be taken into consideration in the re-evaluation of the Company’s fleet requirements. Timeline: Q212</p> <p>Action: Regular contributions will be made to a vehicle replacement reserve fund, to be maintained at either the City or the Company. Timeline: Q212</p>

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Toronto Community Housing Corporation, Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
7.	<p>The Chief Executive Officer take steps to ensure that the draft audit report prepared by the Compliance and Ethics Unit dated December 15, 2010 entitled “Expense Reimbursement – Mileage and Parking” be finalized as soon as possible. Management responses should be included with the report with specific dates for implementing the recommendations. The report be tabled with the Corporate Affairs and Audit Committee.</p>	X		<p>The initial findings contained in the draft report (which included reviewing the Company's mileage policy, standardizing mileage forms, and intensifying the approval process) were reviewed by the Company's Executive in May 2011. These findings were presented to the Managing Director on June 13, 2011. As a result, a revised mileage policy (which included clearer guidance on what mileage could be claimed, the steps required in the approval process, and a standardized mileage form) was approved in July 2011 and implemented in August 2011.</p> <p>The initial findings also determined that an increased scope of employee mileage claims was required. That aspect of the internal audit is in progress.</p>	<p>Action: The final report will be tabled at the March 30, 2012 Corporate Affairs and Audit Committee meeting. Timeline: Q112</p>

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<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u>	<u>Action Plan/ Time Frame</u>
8.	<p>The Chief Executive Officer review the mileage reimbursement policy and, where appropriate, ensure that the extent of reimbursements are consistent with the City’s. Further, the Executive Director review all “high mileage employees” in order to ensure that vehicle reimbursements are cost-effective.</p>	X			<p>Action 1: The company’s revised mileage reimbursement policy will be reviewed with respect to the City’s policy to ensure the extent of reimbursements are consistent with the City’s. Timeline: Q212</p> <p>Action 2: High mileage employees will be reviewed in order to ensure that mileage reimbursements are cost – effective. Timeline: Q212</p>